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# **RAPID ASSESSMENT OF THE LABOR MARKET IN BOSNIA AND HERZEGOVINA**

**KEY ISSUES AND POTENTIAL INTERVENTIONS FOR CREATING  
EMPLOYMENT THAT SUPPORTS COMPETITIVENESS**

**USAID-SIDA FIRMA PROJECT**

**July 26, 2015**

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**Submitted by:**

Cardno Emerging Markets USA, Ltd.

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## Preface

This report presents the findings and recommendations from a rapid assessment of the labor market in Bosnia and Herzegovina (“B&H”). It is based on information collected over the duration of the USAID-Sida FIRMA (“FIRMA”) project and a recent short-term field assessment based on stakeholder interviews, data analysis, and reviews of various reports and legislations. It discusses some of the most damaging, systemic policy and microeconomic constraints behind the country’s high unemployment rates, slow job creation, and weak competitiveness.

The main objective of this engagement is to support FIRMA’s final evaluation of the next steps needed to strengthen the target sectors, wood, metals, and tourism. But the recommendations and ideas apply to almost any sector and, as such, could apply to a wider range of USAID or Sida’s future work on economic growth.

The USAID-Sida FIRMA Team is grateful to USAID and the Government of Sweden for enabling the assessment and to the various stakeholders who offered insights and shared experience. Frank and honest comments from these participants helped to confirm some of the challenges that have been well documented, but also revealed new information about the root causes of constraints that can help inform policy responses and inspired some of the ideas presented herein.

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## Abbreviations and Acronyms

FIRMA	Fostering Interventions for Rapid Market Advancement Project
Sida	Swedish International Development Cooperation Agency
USAID	United States Agency for International Development
B&H	Bosnia and Herzegovina
EU	European Union
ILO	International Labor Organization
FB&H	Federation of Bosnia and Herzegovina
SMEs	Small and Medium Enterprises
IT	Information Technology
VET	Vocational Education and Training
CAD/CAM	Computer-Aided Drafting/Computer-Aided Manufacturing
RS	Republika Srpska
AECL	Adult Education and Continuing Learning
NGO	Non-Governmental Organization
GIZ	Gesellschaft für Internationale Zusammenarbeit (German Society for International Cooperation)
UNDP	United Nations Development Programme
CV	Curriculum Vitae
IOM	International Organization for Migration
RIA	Regulatory Impact Assessment
USAID ELMO	USAID Enabling Labor Mobility Activity
RMS	see pg 34
USAID Sida GOLD	Growth-Oriented Local Development Project
ICT	Information and Communication Technology
PPP	Public-Private Partnership
GDA	Global Development Alliance
ES	Employment Service
CSOs	Civil Society Organizations
AIESEC	Association Internationale des Étudiants en Sciences Économiques et Commerciales
NERDA	Northeast Regional Development Agency
ALDI	Regional Development Agency

## Introduction

### Background

**High unemployment and under-development of a labor force are two of the most serious economic and social problems in B&H.** Over 66% of the working-age population (15 - 64 years old) is not working. They are dependent on other sources of income – e.g. state welfare, parental welfare, remittances or the informal economy, which is inherently unstable and undermines good economic development. Compared to the EU where over 65% of the working age population work in official jobs the data suggests labor market conditions in B&H are among the worst in the region.

The employment situation has a number of unfavorable features:

- > **Low labor market participation:** Nearly 60% of those working age without formal jobs are not only unemployed, they are inactive. This means they have either given up looking for work, they are not interested in working, or they are students. They have no attachment to the formal labor market and they move in and out of different forms of temporary employment, informal employment and inactivity. Among working age youth, where 70% are inactive<sup>1</sup>, many are not students, so their absence from the formal labor market foretells bigger social and cultural challenges. Even if data on the disabled are taken into consideration, inactivity among the remaining working age population would still be high. Only about 12% of the working-age population, a few hundred-thousand people, is deemed to be actively seeking a job.
- > **Long-term unemployment:** Most of the working age people looking for jobs appear to have been looking a long time. Nearly half of the unemployed has been out of work for five years or more; only 30% have been out of work shorter than two years. In conventional terms, this means that unemployment in B&H is not cyclical, but rather structural. However, the true level of structural unemployment is not known. The picture is significantly distorted by many people who register as unemployed in order to receive basic public health insurance, regardless of their employment status. An estimated 50% of all registered unemployed do not fulfil all the legal conditions for being regarded as unemployed.
- > **Under-employment:** Notwithstanding the fact that only a very small minority of working age population have a degree higher than secondary education, among those that do, a sizeable proportion of them appear to be under-employed in jobs poorly related to their training. This is particularly the case for diaspora, but research from the Making Makers Project also suggests this is the case for people who remain in country, in particular in the areas of law, business, and civil engineering. The youth are particularly adversely affected as a good portion of them cannot enter the labor market for years, thus facing the risk of becoming a “lost generation”. It is difficult for employers to draw from some pools of un-tapped talent and this is fueling the surge of migrant labor.
- > **Idle employment:** A situation somewhat unique to B&H is the significant number of workers that remain employed by defunct state-owned or privatized enterprises, but who have no work and are not being paid. These workers, some with employment contracts, accept their status under the threat of redundancy, sometimes unwilling to take a new job because they fear they will lose pension and other social insurance benefits. While they are counted as employed, many earn their income by working informally.

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<sup>1</sup> Research based on the Making Markets Project data and government statistics.

- > **Gender-segregation:** There is also some traditional gender segregation of professions. Not only is unemployment among women with only a primary education considerably higher than that for men, 20% of women in B&H are without completed primary education<sup>2</sup>. Women are more likely to be unemployed. The latest figures show the rate of unemployment among women is nearly 31% compared to 26% among men. Women are less likely to be entrepreneurs. In 2012 over 18% of employed women were self-employed while 25% of men were self-employed. Women entrepreneurs face challenges in accessing credit, building networks and organizing their trade because the platforms for doing business are still oriented to the traditional way men do business – e.g. in the café, during all hours, sometimes with fewer obligations of caring for the house and children.

The reverse side of the poor employment situation is that there is demand for labor - demand is just not being met. The labor market simply does not function the way a market should.

While there are clearly economic headwinds affecting job growth and other factors in the business environment, including the slow pace of privatization, USAID-Sida FIRMA Project's experience suggests there are opportunities for employment among key export-oriented and import competing industries. Important jobs are not being filled. Many of the unemployed are not interested to work in the private sector. The lure of public sector employment, which indeed offers many advantages for those seeking security and relatively better wages, as well as the lack of trust in the private sector are strong motivational factors.



- > Employers have confirmed that the shortage of qualified workers is becoming a serious obstacle to growth of B&H exporting companies. Firms repeatedly claim that they find it difficult to recruit qualified employees even for semi-skilled jobs. There are few mechanisms that reliably signal which skills employers need so that individuals and schools can develop those skills. Likewise, there are few mechanisms by which employers – or even potential new investors – can identify and connect with skilled and semi-skilled workers.
- > The adverse consequences of high unemployment and low employment in B&H are numerous and serious. These are:
  - Lower GDP of the country in comparison with the potential one;
  - Loss of human capital, because the capacities and skills of the unemployed deteriorate with the lapse of time;
  - Increasing poverty, because the unemployed generate no income;
  - Spreading of social and psychological problems;
  - Low labor productivity, which is a causal factor for lack of competitiveness of products; and threat to political stability.

<sup>2</sup> According to the latest figures from the B&H Statistical Agency, the percentage of women who have primary school education or less is 55%. On the other hand, 38% of men have equal education.

Equally important, though, is the risk that if conditions do not improve they will get worse. In some years, employment has decreased; in others it stagnated, so the underlying trend is a long-term decline in employment.

A number of programs and reforms have had success in improving employment conditions, some at a local level, but many have had limited impact. Moreover, few programs have improved long-term employment retention and advancement for low-skilled persons or have worked on improving the economic status of those individuals with multiple barriers to employment. Few reforms have served to reduce what economists call labor market duality. We can see this duality in B&H where one part of the market is organized and protected among “insiders” and the other part is disorganized and distorted for everyone else. Remnants of outdated labor and industrial policies, over-reliance on welfare and remittances, and the absence of national vision and capacity for what needs to be done all combine to create a very difficult environment for reform.

The Project team took a closer look at the reasons why so much of the workforce is inactive and why some efforts to improve the employment situation are not working as well as they should. While a lot has been done to assess the labor market, certainly there is not a shortage of normative labor market assessments, there is a need to fill in some of gaps of understanding about the cause of the challenges, which is not always emphasized in mainstream labor market assessments. The Project also took a closer look at social, behavioral and cultural issues, impact of externalities, employer conduct, and public awareness.

In addition to discussing constraints, the report provides short and long-term recommendations on what USAID, Sida, other donors and various levels of government in B&H may do. The ideas are meant to be additive, not to suggest things that have already been done and tried. However, because the market is so divided and donor projects are so diffuse there is a lot of room for scaling up some of the successful innovative initiatives as well and building on what the government and other donors have started. The report is intentionally light in covering labor law and regulations, primary and university education, institutional development, as these areas have been receiving considerable attention. The team has held meetings with the World Bank Group team leading the efforts around the passage of the new Labor Law in both entities.

The report is based on information and analysis collected by the USAID-Sida FIRMA Project through a range of activities carried out over several months, including:

- > Review of existing research and studies on labor market constraints and synthesize the key findings of this research;
- > Interviews with a wide cross-section of stakeholders to identify major supply and demand-side constraints. These interviews focused on the social and incentive issues that are affecting labor growth;
- > Focus groups with employers operating in both entities to ascertain their perspective on labor market challenges; and
- > Consultation with the FIRMA Team – the Project worked with 540 companies over the years and a lot has been learned on the project that has application to this assessment.

There are major shortcomings in the completeness and availability of labor market data. This situation is not unique to B&H, but it has limited the scope of our review of some topics. It also underscores the wide need to improve information collection and analysis so that future policy actions can be properly targeted to the right issues and the impact of policy reforms can be evaluated.



To get around the information barriers it was necessary to synthesize information from different sources and work closely with market participants to verify information where possible. The main sources are listed in the appendices of this report. Appendix A contains a list of organizations that were consulted or from which information was used for the study. Appendix B contains a list of documents and reports that were used for background information and market data.

## Assessment Approach and Methodology

There is no ideal methodology for assessing labor markets in the B&H context. Most assessments are structured to reflect a generalized view of how labor markets are supposed to perform in ideal circumstances, where government labor policy is fashioned to economic needs and aspirations. So the key questions on wage-setting, labor mobility, quality of competition for labor, competitiveness of education and training, the balance between worker protection and employer flexibility, etc. are considered in relation to the economic freedom the country needs to have. In turn, labor market analysis is considered against an ideal end-state – i.e. these are the things that are missing and these are the actions to produce them. In B&H there are unique political and social aspects to how the market is functioning (or not) that cannot be easily measured, but that have substantial influence on behaviors, expectations, and market mechanics. Some of the dysfunction may not be temporal; it may, in fact, be the end-state, or a long-standing feature of the labor market that will exist until the social and political divisions are less relevant to policymaking and behavior.

The framework used for this report draws on empirical observations and off-the-record consultations with market participants to try to fill gap between the ideal end-state and the art-of-the possible. Higher employment can only be achieved through a mix of various economic and social policies, definitely not by just one policy. Therefore, the assessment considers a range of topics that affect labor supply and demand. It also considered the “market-making” infrastructure that allows supply to meet demand or, as in the case of outsourcing and other industries that could form to exploit Bosnia’s idle labor force, for supply to drive demand.

The assessment covered several key areas of the enabling environment. These are listed in the diagram below. The areas were selected based on studies conducted in other countries, feedback from market participants, and USAID-Sida FIRMA team’s daily interaction with more than 500 companies over the past six years.

Supply-Side Constraints	Market Enablers and Restraints	Demand-Side Constraints
<ul style="list-style-type: none"> <li>› Infrastructure for skills development</li> <li>› Infrastructure for job placement</li> <li>› Social Norms and Psychological Factors</li> </ul>	<ul style="list-style-type: none"> <li>› Labor Regulation</li> <li>› Labor Inspections</li> <li>› Labor Market Development Strategy</li> <li>› Policy weaknesses</li> <li>› Data and Research</li> <li>› Employer-Employee Linkages</li> <li>› Market failures and distortions</li> </ul>	<ul style="list-style-type: none"> <li>› Market conduct</li> <li>› Labor market access</li> <li>› Capacity for human capital development</li> <li>› Psychological/Behavioral issues</li> <li>› Market leverage and representation</li> </ul>

The review of each area was tailored according to information that was available. For example, review of the infrastructure to skills development involved discussions with employers, a quick glance at the organization of schools and programs, and desk-top review of several major reports on skills development. The review of social and psychological issues was covered by talking to market participants that deal in youth employment, a review of the results of focus groups by the Making Markets Project, and other secondary sources. Existing assessments and discussions with employers and local labor lawyers were used to conduct a limited review of regulations.

## Organization of the Report and Main Themes for Future Reform

The rest of this report is organized into two parts: a review of market constraints using the framework described above and a presentation of various ideas and recommendations for assistance. The constraints section starts with a review of some of the headline legal, regulatory and policy challenges. This is followed by a review of supply-side challenges, such as: ill-suited formal and informal vocational training and skills development, underdevelopment of infrastructure for recruiting and job placement, and psychological and social factors that influence attitudes and motivation. Some of the leading demand-side constraints are also addressed, such poor market conduct, lack of activism among employers, lack of information, etc. The second part provides an extensive list of ideas and recommendations for a stronger labor market.

At the highest strategic level the goals for assistance should focus on reversing or eliminating the unfavorable features of the market that affect the growth of competitive industries, which means:

- > Attracting labor to and increasing labor market participation in key sectors – i.e. reducing inactivity
- > Reducing incidence of under-employment and improving the efficiency of labor resource allocation in key sectors
- > Shortening the average duration of unemployment, reducing structural unemployment, by changing incentives and social norms
- > Strengthening integration of women and disabled into the formal work force

The results of the assessment suggest that, in addition to a wholesale reform of labor law and regulation, outcomes such as the following would help to support those goals. The outcomes are wide ranging and are not likely to be addressed by a single intervention, but by a series of them and through a mixture of support. More details about these outcomes and intervention ideas are provided in the second half of the report.

Outcomes	Interventions
<b>Labor Market Governance</b>	<ul style="list-style-type: none"> <li>&gt; Improving the design, efficiency, and monitoring of active labor market measures;</li> <li>&gt; Improving the quality of research on labor market issues – e.g. focusing more on the microeconomic constraints that affect businesses;</li> <li>&gt; Increasing public-private dialogue and advocacy for labor market reform;</li> <li>&gt; Improving the capacity of the government(s) to formulate and implement modern labor market policies;</li> <li>&gt; Reducing the burden of labor inspections;</li> <li>&gt; Strengthening labor law enforcement – in terms of both protecting employees and fair treatment of employers;</li> <li>&gt; Establishing a labor market-making mechanism that will help to reduce market failures and improve information flows; and</li> </ul>

Outcomes	Interventions
	<ul style="list-style-type: none"> <li>› Strengthening information collection</li> </ul>
<b><i>Education and Skills Development</i></b>	<ul style="list-style-type: none"> <li>› Strengthening competency-based curriculums and standards for a modern job market;</li> <li>› Improving the capacity of schools to deliver training and facilitate the transition of their students into the job market; greater segmentation of training between youth and adult markets;</li> <li>› Facilitating the development of new job-driven training programs;</li> <li>› Strengthening the governance and institutional framework for vocational education;</li> <li>› Increasing the private provision of vocational and job skills; and</li> <li>› Strengthening and increasing links with employers</li> </ul>
<b><i>Job Placement and Recruiting</i></b>	<ul style="list-style-type: none"> <li>› Strengthen the enabling environment and promote investment in private sector job placement services;</li> <li>› Improving the public sector infrastructure for job placement;</li> <li>› Public and/or private initiatives that can deepen the market for matching workers and jobs; and</li> <li>› Tactical Support to improve effectiveness and reach of the state employment services</li> </ul>
<b><i>Enterprise Support</i></b>	<ul style="list-style-type: none"> <li>› Elevating the role and participation of employers in labor policy-setting;</li> <li>› Getting employers to be more proactive in planning and communicating labor needs;</li> <li>› Strengthening the capacity of employers to take-on more of the training they need; and</li> <li>› Improving the sources of information for employers to source and retain labor</li> </ul>
<b><i>Culture Change</i></b>	<ul style="list-style-type: none"> <li>› Building momentum for reform by strengthening public education and social dialogue about labor market challenges and solutions;</li> <li>› Strengthening the national culture about employment and work; strengthening the value system by which youth identify their role in the economy; and</li> <li>› Expanding the role of civil society and empowering it to promote a positive work culture</li> </ul>

## Market Enablers and Restraints

### Labor Law

In his April 2015 testimony before the House Foreign Affairs Committee, Deputy Assistant Secretary Yee identified modernization of the labor law as one of the key socio-economic reforms. A lot has been written about challenges with the labor laws and the inconsistency of these laws between the entities and the sub-entity administrations<sup>3</sup>. The assessment showed that in spite of having substantially revised labor legislation after the conflict and having ratified certain ILO conventions and adopted EU standards, weaknesses remain. The World Bank Group is leading the conversation with the entity governments on the upcoming labor law reforms and progress has been made in the second quarter of 2015. Still, the existing regulatory framework falls short of stimulating employment in either of the entities.

Labor laws at the entity-level are substantially the same with a few material exceptions (i.e. the application of collective bargaining agreements), but there are wide differences among the cantons of FB&H and many challenges arise in the implementation regulations and enforcement measures. Most of the existing legislation at the entity and canton level is geared to protect the interest of workers. The central idea of such labor legislation is the protection of employees against risks which inevitably surround economic activity, i.e., the shifting of these risks to the employer. However, the upshot is too many distortions in how labor resources are used, allocated, and priced.

#### Summary of the most important challenges with the various labor legislation and related regulations:

- › **Rigidity and sclerotic:** Legal requirements impose rigidity in employment contracting, work-settings, and job definition. Having only two employment contracts to use (defined and undefined period of time) and the associated legal limitations on the nature of these contracts limits employer flexibility. Workers and firms cannot adjust to changes in the economic environment or arrange flexible employment relationships that help to mobilize labor for specific needs. (Italy has 16 different types of employment contracts, for example). Overly prescriptive requirements on the work place and maintaining the workbook discourage alternative working arrangements, such as telecommuting. Finally, every job has to be coded according to a fixed classification regime and may include further regulatory requirements and certifications. This is not an issue for some professions where there is a good public policy (safety and health) rationale for regulation. But some professions do not need to be regulated or have state-mandated certifications; private sector employers should be able to dictate what they need. In a market where labor participation is weak and where women, youth, and disabled may be disadvantaged and may need more flexible working arrangements these rigidities is a significant limitation.
- › **Opacity and loopholes:** There appears to be some vague provisions and gaps in the laws that leave too much room for interpretation. It creates legal uncertainty for employers and potential for abuse among employees. In some cases, employers may find it nearly impossible to meet the legal requirements. For example, the conditions for termination need to be spelled out with so much precision, employers have noted it's almost impossible to fire someone and not be vulnerable to a legal challenge. Ostensibly, the laws are favoring workers.
- › **Lack of harmonization and legislative conflicts giving rise to disputes and uncertainty:** There are a number of challenges in complying with labor laws when employment relationships transcend entities or even cantons. Inconsistency among cantons is a material issue and this affects the consistency of legislation across the entity and district level. In many cases, the inconsistencies arise in determining employee entitlements, such as severance, maternity benefits, calculating wages, etc.

<sup>3</sup> Labor legislation affects the functioning of companies in very important ways. For example, it affects: the relations between employers and employees (recruitment, layoffs, strikes, collective bargaining, etc.), wages and other earnings, number of effective hours of work, business processes, operating costs, etc. More importantly, the regulation of labor relations impacts also upon the motivation systems of individuals, both employers and employees.

Many private sector employers cite poor court enforcement processes as an even bigger challenge than the need to refine the legislation. Inconsistency in the interpretation of existing laws is widespread and in the vast majority of cases they are decided in favor of employees. A well-established labor lawyer cited that the over 90% of the cases brought to the courts are decided in favor of the employee.

Inconsistent interpretations of the law appear to be widespread. This has fostered mistrust and prevented the building of healthy employer-employee relationships. SME's suffer the most. They are the leading source of new job creation in the country, yet they are the most vulnerable to legal uncertainty. They can neither afford the cost of defending their position in court or the distraction of dealing with a legal dispute. Thus they tend to pay-off disgruntled employees, retain them as a cost of doing business, or not hire at all.

In healthy labor market, trust is institutionalized through the labor contract. Where the labor contract is not properly enforced or the process of mediating disputes is not fair, the employment relationship needs to be based on some other binding element, such as a moral commitment. This probably also explains why a large percent of the employed got their job through a personal or family connections.

Continuing weakness in the labor legislation and poor enforcement of the labor laws has a huge negative impact on the market. It gives rise to unemployment and weakens the performance of the economy overall; it increases labor costs, which also results in declining employment; it distorts the equality principle, since it can favor one group of workers at the expense of the unemployed or under-employed; it may lead to unnecessary conflicts; and it encourages non-compliance with the law, as the realities of life are inconsistent with the rigidity in the law.

Various drafts of new labor laws for both entities have been prepared by the World Bank Group, and separately by the relevant ministries. B&H economy needs its government(s) to take action in order to

**Summary of the most important challenges with the various labor legislation and related regulations (continued):**

- › **Dysfunctional, conflicted and weak structure for collective bargaining:** The collective bargaining in B&H is guaranteed by the Constitution of B&H, the European Social Charter, the ILO Conventions, as well as the Entity Labor Laws. However, it suffers serious deficiencies. The main problems do not arise so much from the constitutional guarantees expressed through the law as they do from inappropriate implementation and the poorly regulated relations between different layers of labor unions, employee associations, and employee councils. The most important objections are related to: the inappropriately frequent use of the extended effect of concluded agreements, the problem of representativeness, weaknesses of the so-called social dialogue and non-compliance with the provisions of (extended) collective agreements. In most of continental Europe, wages are typically bargained collectively and most workers are covered by collective agreements through administrative extension. However, there appears to be a lack of legal clarity about how far these extensions apply and it is affecting labor relations in parts of the private sector, as well as the public sector where most of the collective bargaining takes place. Labor unions, not surprisingly, are often acting against the interest of the private sector. Weak or conflicted representation by these organizations calls in question the legitimacy of collective bargaining and social dialogue, i.e., very few people take collective agreements seriously or have any respect for them. The courts are reportedly stuffed with cases brought by workers claiming a violation of their rights under collective bargaining.
- › **Narrowed definition of anti-discrimination:** While the laws broadly reflect ILO conventions protecting against discrimination, there is room to improve the definition of discriminatory practice. There is also room to better define the practice of mobbing and related limitations. Again, this is relevant for promoting wide labor market participation.

On several occasions, we heard small business owners say they would rather stay the same size than to grow and have to deal with the complexities of employing new people they did not know well and the difficulty of firing them.



create an appropriate legal framework for labor, which will encourage, rather than undermine, employment across the country. The reform of labor legislation is necessary in order to achieve higher employment and lower unemployment, both directly – through creation of legal options for facilitated employment – and indirectly – through creation of an improved business climate that would attract investors and bring about economic growth and higher employment. The reform of policies relevant to labor and employment should not be a current task that is performed on an ad hoc basis only by the line Ministry. Rather, it should be a strategic project which implies a long-term activity, proper planning and involvement of a full range of stakeholders.

## **Labor Inspections**

The burden on businesses from inefficient, sometimes unfair and arbitrary, labor inspections is large. Legitimate businesses are subjected to numerous and often unwarranted inspections controls and subsequent misdemeanor fines, often for trivial offences, while the informal economy flourishes unobstructed. Feedback from many businesses indicate that inspections may be more oriented to extracting a tax than to implementing standards based on reasonable public policy rationale. These businesses believe inspections are organized to find and impose penalties for any and all minor infractions regardless of a business' compliance with the substance of regulations. Some businesses even complained about situations that suggest abuse of authority and rent seeking.

The decentralized infrastructure for enforcing labor regulations and monitoring employment conditions varies in quality and effectiveness. A national policy on Labor Inspection does not exist. Entities define their own priorities and agendas. Inspectors are often not properly trained<sup>4</sup>. There are few, if any, checks on continuing education and competency of inspectors. A great deal of discretion exists within the system and individual inspectors have considerable authority, which is not matched by sufficient accountability. Inspection procedures and processes, as well as staff resourcing, appear to vary by office and in FB&H there may be overlapping authorities and poor coordination between the entity-level services and canton-level administration. The shortage of human resources is particularly glaring in certain cantons and municipalities, some relying on two or three inspectors to supervise all economic entities in their jurisdiction. There is no uniform organization and scheduling of inspections; there is some inconsistency in the use of different tools and IT systems as well as the quality of database management.

## **Labor Market Development Strategy**

One can argue that B&H has not one, but several different labor markets operating on different levels. In fact it could be argued that every administrative division of the country having control over its own labor and social welfare policies has its own captive market of semi-skilled and low skilled workers. Within these markets the public sector is a distinct and separate market with limited outside and privileged access. There is also the labor export market, where citizens having legal access to the EU are able to participate.

The only domestic market that could be considered unfettered and national, by virtue of the fact that labor supply and demand are not confined to internal borders, is the market for high-skilled professional services (e.g. IT and certain very specialized professions). One may

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<sup>4</sup> IFC Pilot project is about to start that will focus on continuing education for the inspectors across all sectors which will also introduce mandatory certification as well as disciplinary measures for poor performance.

argue that the shadow economy also hosts a national market since labor is both transient and changeable, but this is more a symptom of labor market problems than a solution.

In spite of this there is no overarching strategy at state or entity level that has aims and objectives to achieve a national labor market that supports economic development. There is clear recognition of the importance of employment in the wider economic and development strategy. Employment is recognized in a number of important contexts: SME development, education reforms and efforts to lower poverty. While all of these efforts rely on labor market reform, the state plays a very small role in active policy-making or monitoring the implementation of policies. Labor



market issues are not being addressed successfully, nor have relevant employment policies been developed and translated into operational plans. Differences in policies and institutions can give rise to regional differences in the overall impact of economic downturns on unemployment, as well as hinder efficient resource allocation towards projects and jobs that offer the greatest economic benefits that B&H desperately needs.

Achieving convergence in the various markets to support national and sector economic priorities will also take improvements in political organization and a stronger sense of common national community. Some of the major challenges include:

- > **Weak state-level functions:** The institutional arrangements for setting strategy are complex and makes awkward the realization of that strategy at the entity and sub-entity administrations that in effect control both the legislative and enforcement functions. Whereas labor and employment strategies should be facilitated by the Ministry of Civil Affairs and State Employment Agency and implemented at the entity-level, these institutions have no enforcement authority other than moral suasion. The Ministry has become very active in helping to coordinate and promote the reform process, despite having no decision-making role. However, the level of commitment is uneven in the cantons and depends very much on the personal dedication of ministry staff.
- > **Unclear and overlapping roles and responsibilities:** The state, the entities and the cantons are all involved in aspects of labor market regulation or provision through labor ministries, employment agencies/services, labor inspection and socioeconomic councils at entity and cantonal level, and at state level. There is very little functional vertical integration among institutions. The existence of so many legislative bodies reinforces the notion of separateness and undermines coordinated policy responses. It also creates significant costs to achieve reasonable coherence across the institutions and labor market(s); to service the many political interfaces; to harmonize operational processes; and to develop sufficient expertise at any single level.
- > **Poor inter-agency coordination and conflicts:** Even within certain institutions, there are conflicting priorities and poor coordination. For example, within the Federal Ministry of Employment and Social Policy staff have difficulty coordinating their actions to balance employment and social goals. The leaning of the ministry is clearly towards social welfare goals, which complicates the development of employment policies. In fact one

official noted that they needed more young colleagues with the energy to deal with the internal conflicts that arise.

- > **Lack of Institutionalized Public-Private Dialogue Platform:** Most workers and private employers are largely disengaged from the collective bargaining, advocacy and policy-setting going on at the highest levels of government. The trade union network, albeit more decentralized now, is still not a viable platform for pluralism. The structure remains a stovepipe in terms of representation. Union membership is relatively low and declining. Input from employers is limited. Aside from the top-tier business associations, whose constituencies tend to be larger more nimble enterprises or foreign ones, there are few channels for giving feedback to government. Interests of SMEs are not well represented. The economic chambers have the structure and reach to do more, and perhaps they will in time, but many of them are occupied with other priorities. The entity-level economic and social councils do not appear to be serving that purpose either and the status of the state-level council is unclear. The canton-level councils may be more effective, but they have more limited reach on a national level. There are project-facilitated sources of feedback, through various events and outreach, but these are often one-off and they are not institutionalized after the projects end. There appears to be a gender dimension that is sorely lacking from the existing public discourse. Although this report was not focused on the representation of the female-headed firms, our annual business survey from neighbouring Serbia shows that female-headed firms are rarely engaged. What's more the chambers and organizations that have the mandate to represent the private sector do not have a strategy on how to attract more private sector involvement in general and more female headed firms in particular.

## Labor Market Support and Policy Weaknesses

Employment policies and active measures to support employment are generally weak, often inconsistent and unsuitable for sustainably boosting employment. While some efforts are being made to improve labor and employment policies, the incidence of distortion, creation of disincentives, and policy-making apathy remain a problem. Political division is behind this situation as is lack of capacity of policymakers and misunderstandings about what the policy failures are. But historical legacy issues also appear to have an influence shaping, or not shaping, what policymakers do. Some of the noted challenges are as follows:

- > **No coherent policy framework for strategic use of passive/active measures:** Just as there is no central labor market strategy there is no overriding framework for policy-making or designing employment support. The approach to dispensation of state support is largely decentralized and mirrors the fragmented administrative structure that leads to uncoordinated, sometimes conflicting, and poorly monitored interventions. There are often self-defeating situations where measures are being used to offset costs or weak incentives in one area that are in fact created by poor policies or regulatory burdens created by the government in another area (e.g. paying employers to take the risk of hiring unemployed while not improving the training that leads to unemployment in the first place). Attempts to integrate active measures with other aspects of employment service work or to use active measures as part of a strategy to improve employability are generally poor. The public employment services are instruments for labor policy implementation, but lack of a central framework makes it very difficult to position the public employment services. There is a clear mismatch between supply and demand in the market resulting from inadequate policy coordination between different levels of government and the education system and between employers, the government and other stakeholders.



- > **Expensive and questionable sustainability:** Most of the measures are focused on compensating employers, which is expensive and not a long-term solution since subsidies are limited in time and employers may not retain the employees when the subsidy ends. Several employers noted this is indeed what happens. They are expensive in relation to the alternatives of spending money on making the unemployed more marketable. For example, the cost of re-training a metal worker is 20% of the cost of employing a factory worker for a year (e.g. 500 euros vs. 2,500 euros). The new government reportedly has plans to create new, longer-term measures to support youth employment, but the story is much the same – the measures are aimed at subsidizing employers for even longer than two years, but there is no evidence it will actually lead to sustained employment.
- > **Poorly-targeted:** Many measures are used to support higher skilled jobs where the prospects of getting a job are relatively better than lower-skilled ones. The measures are under-used for older workers, women, and the work-capable disabled. There are instances in which training is subsidized, but there appears to be no government subsidization to co-finance and share risk in setting up new occupational training programs. The widespread practice of subsidizing internships is mostly restricted to university graduates; access is limited for lower-level graduates. Internships are often offered in public sector companies (the government is subsidizing the government) but the prospect of getting a full-time job after the internship is very low.
- > **Localized and Market-Limiting:** The funding situation leads to localized targeting and does not support the development of broad-based labor market development. Most funds applied to active measures are derived from employer contributions in each of the regions (RS) and Cantons (Federation). While there is some form of needs-based allocation, the areas that need the funding the most do not always get enough support – i.e. poor areas remain poor and better off areas remain better off.
- > **Weak incentive compatibility:** In some cases the measures have questionable value because they may not be sufficient to achieve their intended result or they are providing subsidies for things that may happen anyway. For example, a lot of emphasis is placed on self-employment. The cost of setting up a new business may be subsidized for youth that have little or no start-up capital. But the subsidy is hardly enough to cover the high cost of actually registering a business. Not only do the youth end up having to find money to simply register the business, the subsidization has little effect in helping the youth to actually get the business running. Again, this is a situation where one part of the administration ends up paying for the costly regulatory burdens created by another part of the administration with very little benefit and inducement for the private sector actor<sup>5</sup>.
- > **Weak integration:** Measures do not appear to be integrated with other employment/community services or mixed for optimal impact. There are cases where a combination of measures may be effective but for administrative or other reasons only one of the measures is used. Many of the employment service offices operate with significant internal bureaucracy on the one hand and too much local political intervention on the other hand.
- > **Poor monitoring and evaluation:** Active measures are not well assessed or analyzed. There does not appear to be any routine, systematic assessment of whether the benefits exceed costs, whether measures are being administered properly and fairly, etc. This poor feedback loop also prevents decision making that could address issues early. It affects

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<sup>5</sup> As of the drafting of this assessment, we heard that new measures were under plan to help alleviate part (not all) of this situation.

planning and prioritization and opens the door for misappropriation of funds for other government purposes.

The approach to the design and implementation of active measures needs to become more structured and evidence-based. Different kinds of measures need to be tested through practical trials that are carefully evaluated before the widespread introduction of the measures.

There are other challenges that undermine the effectiveness of state support. These include the following:

- > **Health insurance registration:** The registration process for receiving state health insurance has a huge negative, distortionary impact: According to a manager at the Ministry of Labor and Social Protection, up to 50% of the registered unemployed are actually not unemployed or have an alternative means of livelihood. They are registered as unemployed to meet the conditions for receiving health insurance. There is no attempt to impose the rule that in order to be registered as unemployed, people should be actively seeking work. The data suggest that well over 1 million people are misrepresenting their circumstances to appear to comply with an administrative requirement that in effect has no public policy benefit. On the contrary, the requirement brings significant disadvantages: it inflates and distorts unemployment data; it creates significant burdens for the employment services and takes time and resources away from genuine job seekers; it promotes a culture of non-compliance and falsification; and it opens doors for politicization of state aid, political patronage and inequity.
- > **Benefit advantages for the unemployed:** The benefits regime of state health insurance creates negative incentives for employment. State health insurance appears to be more generous in a few ways that what is available for much of the formally employed. For example, the registered “unemployed” receive coverage for children; many co-payments are waived; they even get free transportation to medical providers. This situation appears to have a poorly-understood effect on inactivity rates. There are cases where people are reportedly refusing to take jobs because they will lose access to the marginally better benefits. Data on how often this occurs is not available, nor is it likely to become available as long as the benefits of being unemployed exceed the benefits of being employed.
- > **Disruption of informal labor:** Policies are not addressing the problem of the informal economy, which pulls labor away from the formal economy, to the great detriment of both public and private sectors, and undermines competitiveness in many sectors. Penalties and sanctions are usually not large enough to discourage informal employment. There is a belief this may be by design, since the influence of business runs deep into to the bureaucracy, but it is also likely that no one is paying a lot of attention to it and the decentralization of enforcement and penalty-setting has not led to accountability among local officials. (In one focus group we learned of a situation where three companies, one registered and two unregistered were operating at the same location were treated differently by the labor inspector. The registered company had a formal inspection while the unregistered ones were ignored.
- > **Tax distortions:** The labor-corporate tax structure may be having a large distortionary impact in the market. High contribution rates and low corporate taxes (0%-10%) create a strong incentive for employers to minimize pre-tax labor costs and maximize after-tax distributions. A practice that appears to have some recognition in higher-skilled jobs is to pay employees a minimum wage and then provide additional compensation from after-tax profits or in the form of a cash bonus, or dividend, from the owner. This practice not only

lowers the base for social insurance contributions, no doubt among the highest earners, it also distorts the wage-setting picture and encourages informal employment.

- > **Weak social dialogue:** There is a lack of organized social discourse at the national level. As mentioned earlier, the trade unions have resisted some efforts to widen dialogue, and the economic councils do not appear to be working all that well with the exception of some of the cantons. In our experience, high level councils can be used to set strategy and capture attention, but have limited capacity to deal with micro level constraints where implementation problems often arise, and are not always inclusive of the private sector, media and wider society. Equally important is the need to have civil society, business associations and media that are clued into the labor market issues and are active in generating and being able to engage in dialogue. Some dialogue is initiated by these organizations, but it is often *ad hoc*, not demand-driven and evidence-based. It is often financed by donors, making it impermanent, often invitational, and largely facilitated by non-government constituencies with no direct stake in the immediate outcome. The government needs to see employers and the working-age population as partners, encouraging open, honest, broad dialogue on tough issues. The private sector needs to demand more involvement, have some consensus on priorities, engage in evidence-based advocacy, mobilize the public and put forth practical solutions.

## Research and Data

In spite of improvements in data collection, there remain gaps in information on the status and needs of the labor market. The Labor Force Survey introduced not long ago is an improvement, but the survey does not provide all of the information needed to guide national or entity-level policies. Policymakers do not have good information to identify and respond to sector-specific imbalances; to understand micro-level trends; to identify skills gaps; to monitor whether state aid is working or not; to identify differences in labor legislation/policies among different administrative divisions; to hold labor inspectorates and employment services accountable for achieving market-focused results, etc. There is no systematic check on the quality and reliability of the data that is being collected, and data collection practices are reported to vary.

There is significant focus on data collection and not enough focus on analysis to support policymaking. An example of where large amounts of effort is spent on collecting data without a clear policy-making benefit is the effort by the employment services to collect information on the registered unemployed. In so far as many of the people are registered ostensibly to receive health insurance and may already have some form of employment, the information collected on these people is likely to be misleading and poorly suited to understand their situation. There are examples of some offices where smart employment officers are doing their own due diligence to better classify registrants – in some cases testing registrants will to take a hypothetical job immediately - but these efforts are *ad hoc*.

Institutional capacity for data collection, analysis, and sharing is weak. Capacity challenges exist throughout the employment administration. The central statistical office is not specialized on labor market issues or in back-testing data to assess inconsistencies. The employment services offices lack capacity to develop and implement local level surveys. Other parts of the administration lack both knowledge and systems to use the data being collected. There are few formal mechanisms for sharing and exchanging information; most information exchange relies on intra-agency cooperation and quality of professional and personal relationships.

Research by the academic community and civil society is lacking. There is a shortage of microeconomic research on the labor market. This has a lot to do with the historical lack of data, but there are still weaknesses in data collection. Funding available for local research institutions also appears to have been slim. Third-party, independent empirical research is essential to understand labor market challenges, promote public discourse and shape good policy-making.

## Supply-side Constraints

The skills gaps between the existing labor force, the one currently being developed and the needs of employers are very large and possibly widening. FIRMA-project companies repeatedly claim that they find it difficult to recruit qualified employees. The gaps appear to be largest among export-oriented sectors, large and medium-sized domestic goods producers, and value-added service providers. Certainly, all three of FIRMA's target sectors have similar issues in meeting job demand.

Challenges on the supply-side are complex. The problem stems not only from lack of skills and education, but from weaknesses in the infrastructure for job placement, psychological and cultural factors affecting the will to work, mobility and expectations.

## Infrastructure for Skills Development and Entrepreneurship

**Low levels of education are a major constraint to employment.** The educational attainment levels of the population aged 25–65 years are lagging behind those of the same age group in the EU, with a higher percentage of people with a low level of education and a lower percentage of people with higher education. This should not be surprising given that most of the school infrastructure was destroyed or requisitioned during the war and many young never had a chance to realize their educational aspirations. Furthermore, it is likely there has been a depletion of the skills of the population over recent years because of a lack of employment and development opportunities and the country's low level of economic activity. The dramatic variations in employment rates between different educational attainment groups underscore the large negative impact this has had. Ninety-percent of the unemployed and working age population only have a secondary education or lower.

It is demonstrably easier for people to find work and contribute to the economy with higher education, a credible technical certification or a university degree. This is particularly the case for women. But there is room for improvement in the quality of their training. There are challenges in developing the skills and competences of the labor force and their adequacy to support the needs of a growing, competitive economy in not only the EU context for also a Balkan context.

### *Secondary Education*

High-school based technical and vocational education training offers the greatest potential for addressing the youth employment problem. There has been considerable effort to reform and expand vocational education in the last few years. Assistance has included various integrated pilot projects, the modernization of curricula for different occupations, mentoring of VET administrators and training of teachers, systems and database development, capacity building inside schools and government agencies, strategy setting, handbook development, study tours, program development, equipment purchases, etc. There have also been a number of key legal and regulatory reforms, such as adoption of the Framework Law at the state level, and law on establishment of the Agency for Pre-primary, Primary and Secondary Education, which is headquartered in Mostar with deputy directors in Sarajevo and Banja Luka. The laws set out requirements/roles for social partners in VET development. They create a central role for vocational training in economic development, they enable rationalization of the school system, and they allow expansion and modernization of programs, including adult education.

However, the delivery of training in line with market needs remains a challenge. The quality and suitability of high school vocational training varies considerably around country as does the pace of reform. The education system suffers from fragmentation, with unbalanced



quality criteria across the country. The system is still very much supply-driven and the culture for high quality modern learning is generally weak. Some of the major shortcomings and challenges are as follows:

- > **Inconsistency in legal frameworks for vocational secondary education:** All administrative governments are under an obligation to implement revised laws on secondary education, but implementation is slow. There remain many constraints affecting how programs are developed, relations with employers, the establishment of VET councils, intra-school relations, etc. The process of implementation is not difficult and it can be done through administrative directives. Politics and opposition from education stakeholders is likely in play.
- > **Out-of-date programs and curricula:** Parents, students and employers have a negative perception of the narrowness of the knowledge that youth acquire and the inadequacy of the skills they develop for the labor market. Many schools are still teaching the traditional curricula of about 10 narrowly specialized occupations<sup>6</sup> following an old classification that is not compatible with the needs of modern businesses<sup>7</sup>. In other instances, the programs are not comprehensive enough. For example the secondary schools for construction and carpentry are not teaching CAD/CAM or other skills that support modern construction techniques. Use of the modular and outcome-based curriculum that is associated with vocational education in Europe has been slow to catch on and is highly dependent on assistance from the donor community. Even when programs are being revised there are considerable differences between the curricula depending on where it is being done and who is doing it. The education ministries are failing to mainstream curricula developed by many EU-funded pilot programs into the regular education system. There is also lack of teaching and learning methodologies that can inculcate core competences such as entrepreneurship, innovation, team work and problem solving in young people and enable them to cope with an uncertain labor market.
- > **Too many schools and not enough right schools:** Resources are spread too thinly amongst large networks of schools, ostensibly to keep teachers in jobs than to rationalize the infrastructure and consolidate resources. Modernization of schools is slow; thus, many schools lack the right equipment and tools to delivery education efficiently and effectively. By and large most of the systems funding is spent on incumbent staff salaries rather than modernization of facilities, teacher training, or recruitment of specialists.



<sup>6</sup> Nursing, dental hygienist and technician, tourism and hospitality, mechanics, food processing, textile, wood processing, hairdressing, electro-technical, and business administration.

<sup>7</sup> An anecdote about this challenge was well captured in a remark from by an employment services official: he noted that the country has 800 wig makers, and not only has wig production stopped, but they are still producing wig makers. This anecdote applies to a substantial number of ongoing programs.

- > **Weak VET Stewardship:** Most administrative units at entity, canton and municipal levels have insufficient capacity and weak governance structures where just one or two canton-dependent employees are responsible for administration of education, including VET. There is a shortage of professionals with modern educational leadership skills (policy development, legislative and regulatory work, performance evaluation, resource management, organization of transparent and accurate information systems) and good professional managers in public administration. Lack of monitoring and measurement mechanisms means there is no evidence-based system to evaluate implementation. Some schools have even abandoned modernization programs they started.
- > **Teacher readiness:** Teacher training remains a considerably neglected component of VET reform in the country. Most schools have limited numbers of teachers with sufficient technical background and very few have experience in supporting diversified learning requirements. For example, the teachers that produce an over-supply of wig makers and hairdressers are not trained or do not want to instruct on other things. An additional problem for secondary schools is that many teachers of technical or specific disciplines come directly from non-teaching faculties into service in secondary vocational schools with no adequate preparation for professional teaching. While there has been an attempt to introduce the licensing of teachers as a condition for career progression in the RS, the professional development situation in the rest of the country remains largely unchanged.
- > **Too much reliance on formal education, not enough support for occupational-training:** There are two conflicting challenges with the wide use and issuance of certifications. First, there is over-dependence on state-mandated certifications and not enough use of the free market to decide how some professions should be structured. A legacy from the past, where the state regulated everything and set occupational standards to comply with the supply of education, the regulated certification of some jobs, particularly in the lower-skilled and public sector jobs, has no clear public policy rationale. For example, the certification of bakers and pastry makers, among many other jobs, applies here. People need to be trained to be marketable for certain jobs, but the process of “certifying” them is a more controlled -intensive activity that requires an infrastructure many schools do not have. In some cases certifications are not necessary and to over-regulate their use hampers the supply of labor. There are many examples where schools are prevented from offering training because they cannot meet some arbitrary certification requirements or properly document curricula: case-in-point, the training of bakers and butchers in Mostar. The second challenge is in providing quality, market-trusted, certifications when they are needed. The education system is also not responding well to this legitimate need. There are many challenges in putting systems into place to certify qualifications at a recognized level. There are few recognized bodies to conduct internal testing, monitor, and develop competencies for the needed qualifications. Lack of good regulations (in some cases over-regulation and red tape) is preventing the issuance of certifications even when the training is properly developed. (This also applies to the private sector vocational educators as well, as mentioned later.)
- > **Weak links to the market:** In spite of new legislation enabling the formation of VET councils and greater involvement of social partners in educational development, interaction between schools and employers and communities organizations remain weak. The use of councils and consultation with employers can influence program modernization and provide market feedback, but experience is limited. Trust between schools and employers remains weak and this has a direct impact on employment demand. Most stakeholders blame lack of local political apathy, or lack of platforms to have substantial dialogue on employment issues. Under some donor-funded projects, such

as FIRMA, VET councils have been set up with the help of VET coordinating bodies and early experience was very good. In many cases the communication process is mainly based on personal relationships between school principals and companies. There are good models to follow. For example, the agricultural school in Banja Luka has good cooperation with employers, not just in RS but in other parts of the country, where they work together on fitting curriculum design to the needs of employers. Some schools, such as the civil engineering and electrical-technical schools in Tuzla, have good cooperation with local companies when planning enrolment and providing practical training for their students, with the civil engineering school providing 20 scholarships for students with support from local companies. The Tesanj Vocational school has a permanent VET council with representatives from the largest employers on the council. The school adjusts their enrolment policy each year to meet market needs.



- > **Poor cooperation and collaboration:** Even when links with the market are strong and feedback is good, poor cooperation among stakeholders can stand in the way of progress. The level and speed of school responses to market feedback vary and where cooperation is needed by local officials; for example, expanding and modernizing training facilities, buying new books and materials, etc. it is often slow and mired in politics. Germany remains a strong example of an effective apprenticeship system, which succeeds thanks to wide support from and the involvement of social partners – unions, employers, local chambers of commerce, local and central government, and educational institutions.
- > **Lack of focus on speeding up the transition from education to work:** Vocational and technical secondary schools offer courses lasting between three and four years which means graduates are between 17 and 18 years old. But most youth do not enter the workforce until they are well over 25, if they enter it at all. A good VET program is able to speed up the transition from education to work. Relative to medium-level general education graduates, VET graduates enjoy a faster transition to work, are more likely to have a permanent first job, and are less likely to find a first job with a qualification mismatch. Dual training systems, such as those in Austria, Germany, Denmark and Switzerland that combine vocational training with apprenticeships are believed to provide better matching of training to labor market demand. In all four countries, over 40 percent of young people who leave school when it ceases to be compulsory take up apprenticeships.
- > **Employers not doing their part:** There are currently no incentives for companies to provide practical training and apprenticeship schemes and vocational schools therefore face difficulties in providing good quality education for students.

### *Adult Education and Continuing Learning (AECL)*

**AECL is under developed and not yet playing a major role in facilitating employment for non-youth.** It is largely dominated by the state and organized through the same vocational high school system discussed above for adults who did not finish regular school and want to increase their employment opportunities by acquiring formal qualifications and



certificates. The training programs are largely the same as what is given to high school students; it is not viewed as a separate education element within the institutions even though it should be. Participation in programs is relatively low and there is not a lot of evidence to indicate it is helping people find jobs or upgrade their skills to achieve higher paying jobs.

While the role of AECL in economic and social development is now being acknowledged, there is great deal of fragmentation in the AECL structure and translating strategy into tangible results is a challenge. Several strategic frameworks guide the development of adult learning: Sarajevo Declaration on Lifelong Learning and Adult Education; VET Development Strategy 2007-2013; Strategic Direction for Education 2008-15 and the Roma Decade, as well as developments deriving from the EU integration process. But most institutions are still working on the adoption of a strategy for adult education in the context of lifelong learning in line with the EU model. There are many education programs and projects, but the sector is not governed by any mutually defined standards and principles or legal regulations.

There appear to be a number of programs that have succeeded in re-training adults that offer a model for replication, but scale-ability and widespread adoption remain a problem. Some of the major issues for the development of AECL are as follows:

*Formal programs and certifications:*

- > **Underdeveloped legislation:** All administrative governments are under an obligation to harmonize or replace existing laws in accordance with the recommendations of the framework law. Thus far only a small minority of cantons in FB&H have done this and only partially. The RS is in better shape, but implementation is slow. Delays in getting laws passed and/or getting laws implemented stems from the same situation as noted above for secondary vocational schools where many schools are slow at putting new laws into practice. Some initial steps have been undertaken in RS where the Law on Adult Education has been adopted and an Institute for Adult Education is now established, but even then it appears that implementation of the law is inconsistent across various municipalities. USAID-Sida FIRMA Project worked together with the AECL in Tescanj and other stakeholders to help open Adult Education Center located on the campus of the secondary technical school in Tescanj.
- > **Low funding and few providers:** There is no public data on the funding of AECL but the under-developed infrastructure and lack of administrative and policy support suggest it is not a big line item. The number of secondary schools that actually provide training for adults is quite small. Moreover, there are just a small number of workers universities, adult education centers and vocational education centers around the country that can fill gaps. Many organizations that provide AECL get financial support from different donors. So while the number of programs is slowly increasing there is also reason to question whether they are fiscally sustainable. Employment services are a source of additional funding, but they also lack funding and appear to only get involved when there is demand for a specific type of training by a local employer who is seeking to hire.
- > **Teaching out line for the needs of adults:** Like the curricula, the teachers are often the same as those teaching high school students and are not qualified for educational work with adults. The programs tend to be too long and costly (one program can range from 900 KM to 1,500 KM), taking too much effort and covering too many topics that are not essential to the core objective of learning a new occupational skill. There is no faculty for adult education in the country. ILO has done some adult teacher training, but the impact is isolated.

- > **Training out of line for needs of employers:** Employers are reluctant to accept vocational school education for adults due to the questionable quality of training and the lack of relevance that much of the training has for helping adults transition into new jobs/occupations. FIRMA team was more successful in overcoming this problem as its workforce development program was based on companies and vocational schools working together to define and develop training curricula. Most private companies do not value formal diplomas from state institutions. Private companies are giving priority to people that have knowledge of their occupation and supporting skills over state-sponsored certifications. In many cases, for specialized professions, they are often sponsoring formal training for employees at institutes outside of the country. This situation underscores differences in how state firms and private firms hire. Also, employers underline the serious lack of soft skills, such as team work and positive attitudes to work. During the interviews with local stakeholders the lack of managerial skills was often identified as a major impediment to the improvement of the enterprises.
- > **Low awareness or unrealistically high expectations:** Only a small share of active labor force know what sort of training they need and even a smaller number of them select or take part in training activities that increase their employability. Even when there is awareness the expectations are very high. Many adults are discouraged by having to go through, and possibly pay out of pocket for, new training without some guarantee of getting a job. The feedback we got is that people want the certainty of getting a job in return for the bother of going through a training program. They do not see the relationship between the training and stronger employability that would likely result in a job over time.
- > **Weak enabling environment for private sector vocational institutions:** Partly due to missing legislation, lack of public sector support and inability to meet state-imposed requirements for becoming certified in vocational training the number of private adult education organizations is relatively small. Education of adults and their certification remain key problems for entities offering training such as NGOs, regional development agencies and private training providers. The reasons cited for this varied; they included lack of political will, lack of capacity of certifying bodies, opposition from teacher unions, overly bureaucratic processes, etc.
- > **Weak information about AECL:** Given the challenge we had getting information for this report, there is clearly a lack of relevant data about organizations that provide adult education, about programs, number of participants, mode of financing etc. Most of the surveys about adult education in B&H have been carried out by European organizations and teams of experts. The VET Department of the Agency of Pre-School, Primary and Secondary Education is supposed to have a database of adult education providers and a commission for qualifications in accordance with the catalogue of occupations, but this database is still under development.



### *Informal Programs:*

**There has been significant growth in the number of informal training programs over the last several years** (i.e. those teaching un-certifiable skills and building knowledge). Based on a review of the portal <http://www.obuke.ba> (an initiative between both entity government institutions, GIZ and USAID-Sida FIRMA Project) and other sources, it is estimated that there are now over 500 different programs on offer by over 150 training providers<sup>8</sup>. Private organizations – companies and NGOs – make up most of the informal training providers, and most of those are small schools. The most popular courses cover: foreign languages (103 courses), business administration and management, HR and trade (92 courses), IT (88 courses), and various mechanical training (25 courses). Some regional development agencies also have their own programs and there have been a number of donor-funded projects that has provided directly or sponsored informal training in various sectors and localities.

In line with this growth public awareness of informal sources of education has also increased and appears to be greater than adult vocational education. It is estimated that over 20,000 adult learners are completing various non-formal education programs each year. Unlike formal adult education providers, they advertise their offer in many different ways and target their marketing to relevant groups. The take-up by the public of these programs suggests that there is demand for training and that people will pursue it when they are aware of the programs.

**Getting informal education into the mainstream of adult training and used by employers is challenging.** Many programs are not adequately recognized by employers, particularly public sector employers. A large swath of the labor market remains substantially based on formal qualifications and state-regulated certifications. Private sector employers indicated that the market is beginning to place more reliance on practical skills as training programs growth, but the transition is slow and demand is relatively weak, which makes the economics of starting a training service questionable. Interviews with training providers and the chambers have demonstrated that demand for training is mostly policy related (for example when a new regulation is introduced). The quality of programs varies considerably. There is also the basic issue of making the training accessible. Many programs are local. They do a good job of marketing in their local area, but they do not have national reach and they may not be offering programs in the jurisdictions where the potential job growth is the greatest.

### *Entrepreneurial Learning and Skills Development*

**The one category of training that has had some impact on reforming education for youth is entrepreneurship.** There have been a lot of initiatives at national, regional and local levels, some of which are ongoing. Examples include the following: USAID's Student Entrepreneurship Program; the Youth Entrepreneurship Program funded by the Norwegian Embassy that installed entrepreneurship training in a number of secondary schools; the Start Your Business Program, also funded by the Norwegian Embassy, that helped youth setup their business; the Student Enterprises Program, a pilot entrepreneurship training program for secondary schools, funded by the Open Society Fund, that provided soup-to-nuts training on setting up and managing a business; EU –funded programs that provided training for secondary schools and within different VET pilot projects; GIZ and SDC funded initiatives to provide training in schools, the Dutch-funded SPARK Program that provided training, business competitions and start up assistance, and other donor-funded initiatives.

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<sup>8</sup> It is unclear how much training capacity actually exists in different disciplines because many of these organizations are involved in other core or supplementary activities (e.g. libraries, culture centers and foreign language centers etc.).

**The outcome of various programs has been positive, but the benefits have not been systemic.** Programs have led to curriculum upgrades at a number of secondary schools, better trained instructors, links between schools and community organizations. Counseling centers and business service centers for youth have also been formed in a few municipalities. Some universities have also introduced entrepreneurship in graduate and postgraduate teaching programs. Some success has been achieved, but there remain challenges with sustainability, scale-up, and promoting widespread acceptance of the need for change.

**There is no overriding policy framework or plan to guide the promotion and development of entrepreneurial learning throughout the country.** Government support is needed to make this learning widespread and accessible, increase awareness of entrepreneurial opportunities and to catalyze a broad change in the culture of doing business. As with other reforms, the formal coordination mechanisms are weak and only partially functional. There is no shared vision for what needs to be done and how from the highest to the lowest levels of government administration. There is also a need for the government, in partnership with community organizations and the private sector, to develop platforms for sharing information and peer-to-peer learning such that successful programs can be replicated.

## Infrastructure for Job Placement

**Poor job placement is a leading constraint to labor market development.** Apart from the natural and political boundaries that make it difficult to match employees with employers around the country, there is a lack of activity and a lack of platforms to promote efficiency in the market. Job placement is dominated by the state, through the Employment Services, and there are significant challenges as a result of that, which are discussed further below. According to the Regional Cooperation Council's (RCC) Balkan Barometer survey, 21% of respondents use the Employment Services in looking for employees, which is the second highest in the region, after Croatia at 24%. On the other hand, 45% stated that they never use the same service. Private sector sources, common in many countries, are lacking and mostly focused on higher skilled workers in IT or business outsourcing. This is supported by the RCC's Balkan Barometer survey which shows that this is the trend not just in B&H but in the wider region with only six percent of respondents use private sector sources for employing workers. What is more, 77% say that they never use private employment agencies.

**The result is large-scale inefficiency in how the labor market works.** Example of these inefficiencies can be seen in how people find and secure jobs. Up to 50 percent of employed persons reported securing their job from a family or friend or a close contact according to one survey conducted by the Making Markets Project. Networking is necessary and common in all job markets, but these are people who have reportedly secured their job as a result of some influence from a friend or family member, not just help in finding where the jobs are. Nepotism and patronage appear to dominate the public sector employment and there are reports that informal "job placement fees" are not rare, which means people may even be paying gratuities to get some jobs. As suggested earlier, poor placement has also resulted in significant misplacement of people in jobs that neither matches their ambitions or their training. The unemployed lack information about job vacancies and they lack skills required by employers.

### *State Employment Services*

**The state infrastructure for job placement (employment services) is quite large and extensive. However, it is not highly effective or efficient in placing people into jobs.** A significant part of the complex of administration and agencies is fragmented, poorly



coordinated, possibly politically influenced, and lacking in vision for job placement. There are a few outliers where employment offices are performing above the norm, but generally the results for the system as a whole are weak.

**A lot of donor support has been provided to different employment agencies, and there are pockets of improvement.** Various organizations of the EU, ILO, UNDP and World Bank are all noted as having taken a role in either building capacity, institution-building, or setting

As was the case in Tesanj, FIRMA Project has similarly applied its experience in the VET concept in the Gorazde municipality. Prevent Gorazde, a local automotive manufacturing company, asked for help setting up a new factory in Gorazde. The company needed qualified workers trained to sew covers for automobile seats at the plant.

FIRMA Project facilitated a partnership agreement among the local municipality and cantonal Ministries to develop a new curriculum and undertake training of 600 local workers. Through these collaborative efforts, the company was also given land for the factory, while the local municipality reduced permit costs and sped up the permitting process. The trained workers were then employed at the modern, state-of-the-art production facility, which today employs more than 1000 people from both BiH entities, Federation of BiH and Republika Srpska.

strategy. EU organizations, in particular, have been active in delivering assistance and helping employment offices modernize and adopt practices modelled after European Social Fund. USAID-Sida FIRMA Project also worked flexibly with a number of offices to orchestrate vocational education and develop sustainable practices. For example, the employment office in Gorazde benefitted a great deal from this type of assistance and is now playing an important role in support the local government's aspirational growth strategy. There are other examples where employment offices have been proactive.

In many cases good outcomes are achieved as a result of individual initiative and personal connections, not as a result of the system that is in place. Challenges remain and further modernization appears to be needed. Some of the major challenges are as follows:

- > **Many resources are consumed by administering health insurance:** Given the situation of having to register as unemployed in order to qualify for health insurance, considerable amount of time is spent working with people who are only registered for that purpose. As a result, staff spends a lot of time collecting and processing information and following up with people they cannot help or who do not necessarily want the help. Meanwhile, people who need and want the help do not get the support they need. Case officers can have thousands of beneficiaries assigned to them, while the numbers of people that are truly in need of job-finding assistance may be in the hundreds. There is no formal mechanism to distinguish between these people. One example was given about a forward-thinking officer who decided to prioritize his caseload by testing registrant willingness to take a job. He contacted registrants with a fictitious job opportunity to see how much interest they had in it; those that responded with interest he placed on his priority list. Many were not interested. Likewise, there are offices where there has been no attempt to categorize registrants as active or passive, where contact with individual registrants is rare, if it happens at all.
- > **Lack of protocols and framework for placement:** The service lacks proper systems and tools to match people with jobs. There is no consistency in assessing or profiling the unemployed. There is no systematic process for transitioning cases from the first point of unemployment to different steps of finding a job. The criteria for selecting who gets priority is based on the time people have been out of the job, without regard to other factors that could help predict whether the office is going to be successful or not. Many of the people who have been on the register for the longest times are the ones that have little interest in getting a job or are otherwise very difficult to employ because of lack of training or other reasons.

- > **Strategies for job placement are expensive and have questionable effectiveness:** There is a lack of creativity in the development and use of active measures; the employment services need make better use of the fund at their disposal and try to get more leverage by working with the private sector more. As mentioned above, there has been increased focus on active labor market measures in recent years, but it is hard to tell if it is money well spent. Most of the resources go on employment subsidies, which cost 4 or 5 times the amount needed to give training in a mid-skilled job. The average cost of a one-year employment subsidy for a mid-skilled factory worker is about 2,000-3,000 Euros. Many market participants believe employers only keep the employee until the subsidy ends, at which time the unemployment process starts all over again.
- > **Lack of flexibility to tailor strategies:** Employment services operate under a bureaucratic structure characterized by a lot of paperwork, many rules, top-down management, duplication of effort, manual processes, limited use of IT, inefficient workflows, poor planning, etc. Lower management levels, including agency managers and staff, often have no devolved responsibility to make decisions or create new procedures where it may help the agency improve employment conditions. This makes it difficult for these offices to work creatively with the unemployed, to manage situations requiring flexibility, or to optimize the use of subsidies.
- > **Lack of funding or inefficient allocation of funding:** In the RS, many municipal offices lack funding and the funding is not proportionate. Most funding is decided at the entity-level for every single initiative. In FB&H, the employment services budget is larger and the funding process appears to be much more proportionate among offices. In both cases, there is a certain level of inefficiency and exposure to politicization. There are also some differences in the way employment services operate in the two entities, which makes coordination and setting national priorities very difficult.
- > **Poor infrastructure:** The physical infrastructure of the public employment services can be poor. Some smaller offices are hopelessly inappropriate for their purpose, providing no privacy for individual consultations and no reasonable working environments for the staff. Sometimes differences in the physical quality of each office are also determined by how much engagement it has had with donor-funded projects.
- > **Lack of knowledge about the local market:** Employment services are ideally located, but often do not have a good grasp of the situation in their own local market. Interaction with private sector employers can be ad hoc and focused on immediate hiring needs; routine information exchange that would help the employment office plan and guide training activities to meet future demand is rare. There are few good platforms for communicating with the private sector. There is also a sense that some of the employment offices are still too much focused on public sector employment, including state-owned enterprises and are suspicious of the private sector companies. This is, in part, driven by the unemployed who see the public sector as an attractive place to work. But it is also a result of political influence, the biases of office staff and mistrust of the private sector.
- > **Lack of constructive interaction with the unemployed:** As noted above, many employment officers are dealing with huge volumes of cases. Consequently the quality of interaction with each unemployed worker is generally poor; it's not always productive or informed by current information on the market. Some of this stems from lack of training by employment office staff and poor initiative, but many offices lack the market access they need to bring useful information and guidance to the table. In addition to general information on professions, unemployed need special information on how to get back into the labor market: information on trends, where hiring is likely to occur, how to prepare, etc. Further, it seems that counsellors may be focusing more on the youth (30 years or

younger) than on older workers. Several centers that have been established around the country, most with donor assistance, are largely configured to help the youth and it is not clear how much use they actually get. Lack of dialogue with older, unemployed workers further alienates them.

### *Private Sector Services*

**The availability of private sector sources of job placement and mediation has improved in recent years, but remains small.** There are now about 15 companies registered to perform recruitment agencies services. Most are in larger cities; Sarajevo appears to have the most. The market shares of these companies vary considerably. For example, the largest private platform, Posao.ba, claims to have about 90% of the private sector recruitment market, whereas the activities of some other firms are hardly detectable; in fact, market participants noted that some private sector agencies are also registered to do other activities and only have a passive interest in job recruitment. Private schools and programs have very limited involvement in placing their graduates; most do not provide this function.

**The activities of most private sector agencies are limited.** The complaint of job seekers is that private sector firms operate more as job advertising services than job placement and recruiting agencies. Most firms operate a website to post opportunities and many offer some light assistance in doing a CV or targeting a job search, but they are not engaged in extensive mediation and outreach. Further, there is hardly any information on employment trends and upcoming opportunities can be identified that would help job seekers to prepare and go out ahead of time to acquire the skills. Posao.ba, by virtue of its market dominance, appears to have a lot of contact with private sector employers and aggressively markets its services. But it is still seen more for its advertising function than a place where the unemployed can get proactive mediation.

**Most of the private sector services are focused on higher-skilled jobs and lower-skilled jobs in service sectors.** Jobs in IT, operations management with foreign-owned firms, accounting, finance, sales and various professional services (including donor-funded projects) are the most common high-skilled jobs. Lower-skilled jobs in hospitality, tourism, transportation, medium and large retail trade are the most common. The outsourcing industry is one area where there is considerable growth in recruiting for high and medium-skilled jobs. There is also increasing use of temp agencies to fill lower-skilled positions. This is partly driven by labor law rigidity and the lack of employment contracting options. Temp agencies have a useful economic purpose, but when they are used to fill jobs that are otherwise permanent they promote duality in the labor market between the securely employed and the insecurely employed.

For most lower-skilled jobs, particularly those outside of the larger cities, the most common private sector source of recruiting is through newspaper ads and web-sites. However, as noted earlier, at least half of all people formally employed are estimated to have gotten their job through a connection or a friendly referral. Getting a job through a newspaper ad is often one of a number of ways people find jobs - it is not the main source - and sometimes newspaper ads are placed as a formality to meet a regulatory requirement or build competitive tension to negotiate lower wages among an existing candidate list.

Some donor-funded projects have filled in gaps in the market by sponsoring recruitment and mediation services. But as with other initiatives there are challenges in achieving sustainability of the efforts. The Active Youth Program, funded by the World Bank and implemented by the Mozaik Foundation, provided support for youth job placement in various cities. The Youth Employment and Retention Program funded by IOM with support from

Spanish Government had initiatives to help recruit and place diaspora. Programs like these have been addressing the difficult immediate challenge of helping to reduce youth unemployment. Private sector infrastructure that follows from these efforts has been slow to develop.

## Social Norms and Psychological Factors

There are several interrelated psychological and social issues that appear to have an impact on the willingness of unemployed to find jobs. Some of the challenges are a natural consequence of the war and the difficulties wrought by trying to reconstruct and resume lives in a difficult economic environment. But there are other factors that appear to be in play. In the absence of comprehensive research and public surveying, this section contains more anecdotes and opinions than hard data. The factors explained below are based on interviews, focus groups, and FIRMA Team experiences in the field.

**A lot of the working-age population, particularly the youth, appears to be captivated by the security and rewards of public sector employment.** As a result, their expectations and aspirations for employment are substantially influenced by unrealistic benchmarking of various public sector jobs, which for most people are unattainable for lack of contacts that appear to be needed to be hired. In one survey, over half of the respondents responded that their preferred place of work is the public sector. Not only are the conditions in the public sector unsustainable from the point of view of wages and benefits, but the number of opportunities are likely to decline over the next two decades as the government will have to do some consolidation and keep fiscal health in check. The bias towards the public sector is also a reflection of the value system that many people have following the war, where security and reliability trumps the risks and rewards of trying to climb the economic ladder.

**There is significant dependence on the state to educate and help people find jobs.** This is how it was in the past and a significant portion of the working age unemployed expects the same. To them the state should bear the responsibility of creating and finding jobs, so they wait. There is a pervasive lack of individual initiative and a denial that the skills/knowledge acquired through many years of education may not be sufficient for the needs of employers. The mindset has also contributed to the situation in some privatized enterprises where people have remained on the roster without pay with the expectation that the state will someday make them whole. High expectations for the state exist throughout much of the region. In B&H it has been exacerbated by the huge influx of external assistance, politicization of state aid, and diaspora remittances, all of which promoted a culture of entitlement that now needs to be reversed.

**In nearly all of the former Yugoslavia countries labor force development is affected by the legacy of social ownership.** Social ownership created an entirely different employment arrangement in allowing workers to manage enterprises according to their own governance framework. It is an influential feature of transition in B&H that has no parallel to most countries of Central and Eastern Europe. This is an under-studied aspect of economic transition in the region that may suggest some new approaches are needed. It underlies dysfunction in the labor market and creates a motivational barrier for much of the working age population to accept a market-based employment relationship. Nostalgia for the past, combined with a lack of understanding of how labor relations should work in a free market, inhibits many people from adapting to the new economic reality. Some reforms have been made on paper, but more effort is needed to change hearts and minds among those deeply affected and build positive expectations for a different system.



**Unemployment is no longer a taboo, lack of social pressure to be employed and contribute to the workforce was often mentioned during our interviews.** The urban youth, in particular, appear to lack incentives and motivation according to research done by the Market Makers Project. Lack of social norms for being employed leave room for alternative value systems to develop. These value systems can lead people to develop unrealistic, rigid expectations about what they are willing to accept as employment, or, even worse, cause people to justify their unemployment by rationalizing their situation and emphasizing benefits in not having work or steady income. They cope with their situation by refusing to acknowledge that they should be doing more to improve their situation, and society is not reinforcing the need to work.

**There is a lot of emphasis on getting the “right” job among youth.** The concept of starting in the mail room and working the way up is not universally understood. Among the higher educated the right job is often characterized by working in highly-paid jobs that offer responsibility, require high-tech specialization, or demanding creativity. Among the lower-skilled, status can be achieved by working in an office, operating a computer, working in financial administration, or working with a foreign company. Jobs that are repetitive or may require some menial labor, even when they offer a foot in the door, are perceived as lesser forms of employment. Job status and bragging rights are valued more than remuneration.

**Aside from the lack of social pressures, many of the unemployed also lack financial pressure or they need stronger financial incentives.** Opportunities in a large, easily accessible informal economy, combined with remittances, a generous health insurance safety net, increase the opportunity costs of getting a formal job. Wages and wage growth are relatively low in almost every sphere of the labor market except the public sector and some higher-skilled professions. So the economic proposition for getting a job is often weak, particularly if the unemployed have to trade-off free time and/or spend money commuting to another location, relocating their family, and acquiring new training. The opportunity costs for younger workers may even be higher if they receive financial support from their parents and there is no negative social stigma attached to living at home for years after graduating from school. Not surprisingly, the average unemployment rate among married workers tends to be lower than single workers having similar skills and job experience.

**There is a surprisingly large overhang of negative sentiment towards domestically-owned private sector employers.** Some of it is justified by poor market conduct of some of these employers in terms of non-compliance with law, informal activity, payroll tax evasion, widespread use of service contracts to get around fixed employment obligations, poor working conditions, etc. Some of it is driven by perception, or misinterpretation, of how the labor market should work in a free market. Lack of trust is one of the reasons why the public sector employment is highly regarded. Most well-known foreign companies seem to enjoy a good reputation.

## Demand-side Constraints

The constraints to labor market development are not all about the supply-side – i.e. human capital or regulations that apply to it. Obviously, there needs to be demand for labor and this depends on both economic conditions and the business enabling environment which has to support business growth and job creation. There are major challenges in this respect. But just as important, enterprises need to have the capacity to find and nurture labor; to manage their workforce without taking excessive risk; be active, trusted social partners with government, local communities and job seekers to develop a labor market that fits their needs. Below is a summary of some of the challenges that were noted in our review:

- > **Poor market conduct:** As noted above, poor conduct by some employers has been a challenge, weakening public trust and lowering the attractiveness of working in the private sector. The conduct ranges from over-use of service agreements to outright non-compliance with law. There is a belief that conduct is improving, but the enforcement of labor law is not consistent and there are still errant practices. Everyone seems to have a story about someone who has been treated unfairly. There are also situations of abuse. For example, when wages are intentionally not paid or when people are hired into companies that the owners intend to abandon after having off assets and selling production. There also appears to be cases of mobbing and unfair re-negotiation of labor terms in some troubled privatized companies. Poor conduct is something the private sector business community has to address and work with the government to mitigate.
- > **Inability to mitigate legal risks:** Employers are cautious about hiring even when they have new opportunities. This has less to do with taking business risk than with the intractability of their labor force due to regulations and litigious employees who are able to secure their job, or a healthy severance, with the help of a labor-biased court system. One well-regarded labor lawyer noted that employers are losing most of the wrongful termination disputes brought to the courts because of technicalities and poor legal interpretations. Even the head of the country's fastest growing recruitment agency admitted that his growth is less than it could be because he does not want to hire for all of the legal risks it brings. There are also well-known disputes over the extension of collective bargaining agreements to private sector employers that have led to legal malaise and a huge backlog of court cases. This all has a significant impact on the efficiency of labor resource allocation because employers seek to hire people they know and can exert some moral suasion over. It limits access to the job market for many people.
- > **Weak market leverage and representation:** Associations exist to promote the interests of employers, but they are under-developed and are largely viewed as a poor source of representation by the private sector. Much of their focus is on revising collective agreements on matters that do apply to many private sector employers. The ability of employers to influence reform is diminished by the plurality of politically-captured trade unions and the employee associations whose influence is wide and deep and whose



agendas appear unchangeable. SME employers, in particular, lack strong, independent social partners to influence industrial relations in a market economy. Business associations (including chambers) and civil society organizations could play a stronger role in advocacy and public-private dialogue than they do. The Foreign Investors Council through its White Book outlines important issues for labor market reform for large companies. But for the rest of the business community a stronger, more inclusive platform is needed. There is also a need for better data and microeconomic research to support labor market reforms. Thus, universities and think tanks have to be more involved in doing research (i.e. showing costs) that will motivate and inform specific reforms.

- > **Lack of engagement by employers:** For their part, employers are not always actively engaged in labor market development. As with the unemployed, there is still significant dependence on the state to mediate, train, and develop the mechanisms for supply to meet demand. This may be the result of not having the right platform for businesses to work together and co-invest in new initiatives, or the result of easy access to state support on the promise of creating new jobs. In any case, businesses need to be more pro-active in planning and communicating their needs to schools, local community organizations, and employment offices.
- > **Lack of employer-driven training:** Employers also need to have a more active role in training and skill development. With the exception of some specific cases of developing firms (for example the pharmaceutical company Bosnalijek), many enterprises do not provide enough training to their employees. They often lack any strategic or long-term view of the skill development of their workforces.
- > **Capacity challenges:** The biggest source of sustainable job creation is likely to be SMEs. However, SMEs often lack the capacity to develop a qualified workforce themselves given the poor state of training and job readiness of many of the unemployed. The challenge is heightened in B&H because finding the right people requires businesses to commit resources and retain internal knowledge that are not necessary in other countries; for example, as in Germany, where the path from school to work is more integrated, structured, and standardized and the costs of finding qualified labor are lower. Many small business managers lack training and access to tools to compensate for the labor market weaknesses.
- > **Distortionary impact of the social tax regime:** While the impact of tax policy is beyond the scope of this paper, it is worth noting that high social taxes appear to have a large impact on employment compensation arrangements. High social taxes and relatively low corporate taxes create a strong incentive for employers to evade taxes by under-reporting wages or using informal labor. It also creates a window for legal tax avoidance, which was mentioned earlier in this paper.

## Interventions for a Stronger Labor Market

Here we look at a range of interventions that could help move market-oriented reforms forward, re-shape the supply chain of labor, and improve conditions for job creation. These interventions are not all –inclusive of the reforms that need to be made; for example, the higher level work on labor policy, legislation, transposition of EU directives, collective bargaining processes, etc. are critical to labor market development but are not emphasized below. Rather, these are interventions that may leverage USAID’s and Sida’s comparative advantages and/or where progress appears to be slow or constraining within the frame of existing donor support.

### Labor Laws, Regulations, and Policy-Making

Revision of the labor laws in both entities is a high priority and support is already being provided on these reforms by the World Bank and other agencies. Drafts of amended labor laws are reportedly already on the shelf and there appears to be a general understanding among policy makers that there is need for improvement and better harmonization. However, the environment for reform is often as important as reforms itself. USAID, Sida and other donors that have a full-time presence in the market can play a greater role in building public support for reform, improving the quality of labor policy-related research, building capacity for public discourse and advocacy, and building capacity in policy formulation. Below are a few ideas.

Policy development is often done in an information vacuum without sufficient expertise or participation by stakeholders. This situation applies to all types of reform, but labor market policies are considerably weakened by this approach. There is room for government institutions at different levels to improve labor policy-making. Policies should be designed based on assessments and evidence and they should be developed in a collaborative manner including employers, unions and marginalized groups. Government institutions need to improve their capacities to implement policies, including monitoring and evaluation capacities. Finally enforcement of legislation needs to improve so that a balanced approach is applied that ensures the rights of workers but does not impede business growth.

#### **1) Better quality and volume of research on labor market issues to improve policy development**

There is not enough empirical research on the impact of various policies on labor market functioning. Lack of information and evidence opens the door to politicization and makes it difficult to build consensus. New compelling research packaged in the right way can drive public-private dialogue, attract wide interest, involve the academia and inform policy development.

Much of the research in circulation looks at the labor market from a macroeconomic perspective, which makes it difficult to focus discussion on root causes of market constraints. Sponsorship for new research that looks at microeconomic constraints and costs of specific policies and different entity-level regulations is needed. There is no shortage of topics. There is also opportunity for highlighting international standards and practices, for example on the use of different types of labor contracts, on the effectiveness of labor policies in other parts of the region, etc.

Local research organizations lack funding to undertake this research on their own, yet some like the Economics Institute have the capacity to do it. Support in this area would also help get research organizations more involved in the labor reform debate and underscore the

importance of evidence-driven policy-setting. Information and experience recorded by various projects could also be used to guide the design of new targeted research and reduce the costs research organizations incur in identifying microeconomic issues.

## 2) Strengthening public-private dialogue and advocacy in favor of labor law reform

Overall social dialogue is very weak between government, employers and employees. Reforms are needed, yet the public is not adequately informed about the benefits of reform and are resistant to change. Labor unions, for their part, sometimes mediate against change, promoting policies that undermine business competitiveness and are counterproductive.

There is a great need to build public support for reform and change the hearts and minds about improved regulatory governance – from the bottom up. Well-organized, continual dialogue can facilitate change and unify stakeholders around commercial interests where political interests diverge. At a minimum more and better dialogue will serve to educate the public so that the trade-offs of political decisions are known. Examples of where assistance could be provided include:

- > Developing platforms for public-private dialogue on labor market issues and the pending legal reforms. This could happen through existing platforms like the Entity Socio-Economic Councils
- > Working with local organizations, including the Socio-Economic Councils to facilitate public-private dialogue in line with various international standards, such as those promoted by the European Commission Cooperation Programs — INTERREG, RECITE and ECOSOUVETURE. This includes working with special groups –e.g. women, youth, sector specialized trade groups – to facilitate forums on special topics.
- > Providing support to strengthen the secretariat functions of the socio-economic and labor council(s). This is not administrative support but operational and agenda-setting support to improve the technical capability of the Councils.
- > Building the strategic communications capacity of key government institutions around labor market issues. It is important that government is able to articulate reforms to the public , to improve the dialogue process
- > Working with media outlets to improve the quality of reporting on labor market issues. This starts first with building trust with the editors and then moving to journalist briefings and then technical advice. This could also include the development of a special workshop series, implemented by a local organization that provides information and guest speakers on labor market issues that, aside from helping to train, can form the basis of new media content.





### **3) Strengthening the capacity of the government(s) to implement labor market policies**

Weak implementation of labor market reforms – ranging from poor application of framework legislation, failure to reform key institutions, and poor enforcement of laws – is a byproduct of the political division, but it is also an indication the government lacks capacity to properly implement reforms. To borrow an overused phrase “the devil is in the details.” Poor implementation leads to all sorts of distortions and political intervention. Some regulatory constraints may go away, but others are created as lower-level policymakers and administrators are left to their own graces and biases to make organizational changes, develop subsidiary regulations, define new processes, etc. The irreconcilability of some countries high “Doing Business” rankings with their poor situation on the ground is an example of how great reforms can fizzle during implementation. As headline reforms are made, government institutions are going to need help to implement them effectively. In B&H the situation is even more complex because of the poor vertical coordination mechanisms between the State-Entities-Cantons and municipalities. However, there is also poor horizontal coordination between Ministries at the same level of government. Typically the Ministries in charge of labor develop policies or legislation with little interaction with the ministries responsible for industry, small and medium enterprises. Government policies in B&H are typically developed in a vacuum and are not linked with government budgets. What is needed is improved horizontal coordination among the Ministries and vertically between the different levels of government. To ensure that coordination happens, procedures need to be adopted to make coordination obligatory. Costs to implement strategies need to be calculated and coordinated with the Ministry of Finance, to ensure that they can be implemented.

There are no indicators in place that are monitored to determine if policies are effective. Government needs to develop effective monitoring and evaluation tools. This includes tools that may be used at the state or entity level agencies to track progress and promote policy coordination, such as a reform management system. This will help promote inter-ministerial coordination between policy and budgetary group and intra-ministerial coordination to ensure policy coherence. It also includes wider use of the Regulatory Impact Assessment (RIA). Tools can also be introduced for civil society partners, such as the creation of Regulatory Index Bosnia that measures the quality of implementation based on 10-key parameters.

### **4) Special Purpose Regulatory Reforms**

Aside from the mainstream legal and regulatory reform that is under way, there are opportunities to modify existing regulations for special purposes and groups. There are aspects of regulation that are disadvantageous for youth and women employment or that create disproportionate regulatory burdens on SMEs where the public policy risks are low. For example, regulations that affect the licensing of private child care operators and the operating hours of state child care services create conditions that limit access to child care among mothers and fathers who want to work. Lack of choice in employment contracts also affects women and youth. Regulations that require employees to have a formal office location reduce demand for telecommuting and work-from-home arrangements. Some regulations are more applicable to larger businesses employing large workforces than smaller businesses with one or a handful of employees. Issues like these could be addressed by selective modification of regulations. More analysis is needed to identify how regulations can be adjusted to address group-specific constraints.

## 5) Improving enforcement:

### (i) Strategic assistance to reforming labor inspections:

The challenge with labor inspections is not infrastructure or systems (USAID ELMO with the ILO provided some of this infrastructure), but lack of uniformity of approach and poor implementation. Inspections often fall short of effectively or efficiently protecting the interests of labor, employers and of society as a whole – and in some cases they are being used ostensibly to tax businesses.

This is a difficult area to support in that context because much of the dysfunction will stem from politics, passivity or corruption. But it is a government activity that has to be done well and efficiently or it will undermine all other reforms. There is still a large need for training and skills development among the inspectorates, but it makes little sense to spend a lot of resource on doing this capacity building without political or managerial will. For this reason, in the near term, we believe assistance should focus on the following strategic initiatives:

- As with the labor law reform, build public support for reform through advocacy and awareness building. Businesses and their associations and chambers have to be at the center of this effort, working as national coalition to communicate business concerns and experiences and propose improvements.
- Development of a national framework for inspection coordination and information sharing.
- Develop and disseminate model processes and procedures for labor inspections based on international standards.
- Strengthen compliance monitoring and detection in key areas. One area, in particular, is the informal economy. Concurrent to labor law liberalization, the authorities have to improve and reduce the magnitude of informal employment. Detection and risk-based procedures need to be strengthened.

### (ii) Support to improve the efficiency of labor law enforcement

Like credit enforcement, the challenge in adjudicating labor disputes has to be addressed in some way. Preventing disputes is important and this means having clear laws and regulations and strong public education. But beyond that, the entire court structure for resolving claims quickly and fairly is weak. There are various interventions that can be considered:

- Training and development of guidance for judges and court officers. This could include training focused on international labor standards.
- Re-design of court processes to improve efficiency, enable a triaging of court cases so that easily resolved disputes are not hung up by complicate disputes, etc.
- Work with alternative dispute mediators as an alternative mechanism to the courts to resolve labor disputes.
- Working with employer associations and trade groups (including lawyer groups and civil society organizations) to develop advocacy an strategy and platforms for improving court processes and possibly developing self-regulating mechanisms to promote employer compliance with labor laws.
- Working with employer associations and trade groups to development labor law education for SME employers.
- Public outreach on the economic problems being created by poor enforcement.

## Improving Active Labor Market Measures: Smart Subsidization and Doing More with Less

As noted, the use of active measures tends to be ad hoc, focused on direct subsidization of employers (e.g. wage subsidies), and not well monitored or evaluated. This may be intentional, as it offers local governments a liberal use of funds without accountability. But there are also other reasons that could be addressed with some support: absence of a central labor market policy; lack of experience in how to design active measures for the B&H context (i.e. the incentive challenges are not entirely the same as the EU and more developed markets); a lack of capacity in how to use the incentives; and a lack of research on where the government can get the biggest bang for the buck. For example, in other markets research suggests that direct subsidies and public sector work programs have a lower impact on sustainable job creation than support for training, yet this is not reflected in how resources are allocated in B&H.

Improving active measures for employment is a major challenge; there are many creative interventions that could be adopted. Some of the recommendations and ideas provided further on in this paper could also be developed as new active measures. There is a need for government support and policies to be upgraded to focus not only on employment, but also on employability, which is consistent with the European Employment Strategy. Targeted assistance could be provided to improve both design and utilization of active measures. Examples of interventions include:

### › General:

- Development of a uniform framework and guidance for the design of labor support measures- to promote coherency among different measures, sound and detailed diagnosis of constraints, and application of best practices and principles. (It is also important that this framework helps to integrate employment support with other business enabling support and includes evaluation as a design element.)
- Development of a management system to enable different levels of government to implement and monitor the use of active measures. This includes tools for profiling participants and deciding the allocation of support.
- Assistance to local and regional governments in developing alternative financing sources for active measures. This includes assistance for competing for foreign grant schemes (particularly coming from the EU) intended to support various employment programs.

### › Intervention Design:

- Assistance in the re-design of existing measures: This would be informed by research mentioned above. It would also respond to the weaknesses identified among employment services agencies since the support those agencies give and their funding fall under the umbrella of active measures. For example, programs offering more extensive job-search assistance and counselling may have merit since this type of support has proven to be more effective than other types of measures according to some research.
- Assistance in the design of new employment measures and programs. There is a need for program diversity and segmentation. This can be done by customizing programs for different vocations, geographic locales, age groups, targeted outcomes, etc. For example, public works programs may be a better mechanism to engage long-term unemployed or people with low skill capacity than training or short-term employer subsidies. There is also a need to look at alternatives to these subsidies. The use of incentives to get skilled workers to relocate where skills are needed may work in some (obviously, not all) cases. There is also the possibility of bundling special credit programs with hiring incentives addressing both the need for labor and access to finance in some companies. The government can also create new incentives for employment by purchasing from companies that hire unemployed workers.
- Assistance in the development of more robust and extensive self-employment initiatives. While there are a couple of programs to promote entrepreneurship among youth, there are no programs focused on helping older unemployed (30 years +) become self-employed and set up their own business. One example that aligns with tourism development is to promote the development of "green entrepreneurs" and the development of entrepreneurial opportunities in managing resources. (e.g. in natural resource management, alternative energy provision, energy and resource efficiency, pollution mitigation, etc.). There are undoubtedly skills among the unemployed, developed for other industrial purposes of the past, that could be re-directed to these new disciplines as well as in infrastructure development. With some help in setting up a business, it may be the source of an entirely new livelihood for out of work engineers, mechanics, electricians, surveyors, material testers, and many more.
- The VET-council initiatives, originated by USAID-Sida FIRMA to combine enterprise support with labor sourcing through training of the unemployed (in Kalesija, Tuzla, Bosansko Podrinjski, Teslic, Prnjavor, Tesanj, Sanski Most, Prijedor), offers a model for replication by the employment services. In Gorazde, for example, the employment office is replicating FIRMA's assistance in working with BINGO the supermarket chain to develop an entire workforce for a local shopping center under plan. USAID-Sida GOLD also appears to be following the same model. There may be other opportunities for the employment services to work with private sector development projects and develop active measures of support based on this cooperation.
- Development of "Employment Zones" that focus on areas where unemployment and prospects are weak. These zones



would attract a higher than average level of smart subsidization

› **Measures for Youth and the Disadvantaged:**

- Development of more integrated programs of training, counselling, apprenticeship in key competitiveness sectors. Branded programs (e.g. a “From School to Work” program). Successful youth support programs are those that provide a range of supporting services, tailored to the needs of the young people and their families.
- It may be useful to re-design the public sector internship program for youth, since access to this program seems to be limited to people who have contacts in the public sector and is not leading to many full-time employment offers. The creation of a “mini job” program offering temporary, full-time jobs in the public sector; it could help a larger group of youth get experience.
- For disadvantaged and vulnerable groups, early intervention is critical for reducing long-term structural unemployment. So support programs that provide direct incentives that encourage the disadvantaged to participate in programs, and support that enables the disadvantaged to access programs (e.g. transportation, materials, lunch, etc.) is also options.
- More focus is needed on developing youth support measures that address attitudinal factors. It is not easy for many programs to address these factors. But mentoring programs that provide contact with employed adults who combine counselling and monitoring can help.
- There is a need to re-design the existing youth-oriented business start-up programs. The subsidization may be too low and the range of support could be wider; for example, by providing credit support and counselling after start up<sup>9</sup>. Micro-franchise opportunities could also be developed that offer business models and templates for basic, high quality businesses that can be owned and managed locally. (The weak focus on these initiatives may be a reflection of the narrow focus that the EU gives to them. Less than 10 percent of the money spent on active measures goes to support entrepreneurship. In Bosnia, because of the job creating benefits, this type of support should be larger portion of the whole.)

<sup>9</sup> “A Review of Interventions to Support Young Workers: Findings of the Youth Employment Inventory” World Bank SP Discussion Paper, Gordon Betcherman, Martin Godfrey, Susana Puerto, Friederike Rother and Antoneta Stavreska

## Improving Skill-Matching and Workforce Readiness

**Establishment of a VET Council system:** The challenge going forward is getting more widespread improvement of skills and capacity such that the labor market can adjust quickly to new economic circumstances and attract investment – i.e. qualified labor can be developed and allocated to meet the needs of not only existing employers, but also investors and employers who would come to the country if labor conditions were better. A VET Council is needed that involves a small team of analysts, economists, educators, and business-experienced professionals at the state –or entity- level that focus on labor market functioning and proactively manages supply and demand. The team would be responsible for identifying the skills employers need — now and in the future — and signaling that information in the market. It would advise the various labor ministries. This team could tap into the established labor ecosystem — government labor reports, private-sector hiring reports, education and industry data, and so forth — to deeply analyze both evolving employer needs and the talent pipeline at the local, regional, and national levels. It would use this ongoing analysis to identify market imbalances and alert the market’s stakeholders — employers, schools, governments and individuals — so that they could adjust. To ensure rigor, this group would work with local and regional think tanks; it would have access to standards for describing and credentialing work; it would distribute those standards to educational organizations; it would have connections to diaspora groups; it would inform the government(s) on labor trends and policy dysfunction; it would manage a national database with information about where jobs are being created and what skills are required, among other things.

There are two main areas that need to be addressed on the supply –side: formal (secondary schools) and informal education/adult re-training. Skills assessments need to be periodically completed to evaluate what skills are needed by industries, which needs to include evaluating current industries as well as relatively nascent industries (like ICT and tourism). This analysis should serve to identify what new courses are need for secondary and tertiary education, and adult re-training. To enable this, a Vocational and Educational Training (VET) system can be established, that would include private sectors, schools, governments and employment bureaus. VET councils can be set-up at different levels of government – specifically at the Entity, Cantonal and Municipal levels.

Although the cantons are responsible for education in the Federation, industry policies are the responsibility of the Entity – therefore to respond to industry needs for labor, an over-arching coordinated approach is needed. To implement a VET system, develop VET management programs for school directors and policymakers, identifying and raising the profile of VET champions through public outreach, advisory support, technical support, develop a framework for VET governance. The VET councils need to be networked and linkages need to be facilitated. FIRMA was successful in setting up a number of VET councils because the project provided guidance documents on how VET councils should operate to local governments, schools, and employment services. This would not be general guidance, such as what is available from EU experience, but rather specific tactical assistance based on a local job market assessment and unique circumstances/needs of each of the stakeholders.

### Strengthening links with employers

**Employers have to be more engaged in training their workforce.** There are a range of innovative initiatives that potentially benefit both individuals and businesses, particularly regarding approaches focused on skills development. Many of these initiatives take place at the worksite or strongly reflect employer training and skill needs. Some of these could use third-party intermediaries to build in-depth knowledge of the industry, establish relationships with multiple employers, coordinate training options, and conduct research to monitor industry's changing needs.

**Support for an independent national study of employer needs;** the results would be presented in a publication nationwide. This could become an annual event that provides of of demand-side trends and supporting the recommendations of the VET councils and the development of policies and curricula.

**Development of PPPs around specific training opportunities.** Various initiatives including practical training partnerships, where classes are held in companies but also apprenticeship programs. Industry leaders would play a major role in the development of vocational standards. This model was applied on the USAID-Sida FIRMA Project activities. There is also a need to spread ideas and provide guidance and models that will enable employers and educators to pursue other opportunities vis-à-vis these partnerships: development of industry standards and peer review of certain programs. There are several international examples. These include Ireland with similar PPP arrangements for addressing women and disadvantaged ("Partnership 2000" and "Programme for Prosperity and Fairness".); Japan, the Employment Promotion Corporate is a PPP with the Ministry of Labor that has private sector representatives running community vocational training associations from state-provided facilities that offer job seeking resources. In the United States the League for Innovation is a PPP with community colleges that focuses on information for younger workers.

### Strengthening competency-based curriculums and standards for a modern job market:

The transition between old and new curricula is daunting and involves access to technical knowledge and tools that may not be readily available in B&H. The challenge is not only upgrading curricula to reflect the needs of modern industry, but to build skills and certifications in professions that are entirely new to the country; that enable "leapfrogging" into new competitive industries, such as outsourcing, various IT-based sub-industries, new forms of tourism, specialized production, etc.<sup>10</sup>.

New approaches tailored for B&H may be needed to speed up the adoption of new curricula and enable flexibility in how the education system responds to economic needs. This involves more international partnering with external training centers that already have the curricula and teaching methods, more consolidation and sharing of expertise such that schools can specialize and divide competencies and more advocacies with school leaders and teacher unions to promote upgrading. It also involves improving the efficiency with which new curricula is reviewed and approved for use. but this is as much a political constraint as it is a capacity constraint. Some of the areas where new assistance could be provided include:

- > Helping schools to source and obtain new curricula. This could be done through more cooperation with EU vocational schools. There may also be scope for initiating small GDAs or securing voluntary support from external schools to obtain curricula and materials. Curricula can also be developed by cooperating more closely with companies who can articulate their needs: involve industry in developing the training standards.
- > Forming an inter-municipality school cluster around the development of specific curricula. In this way each school does not have to bear the burden of developing full programs for certain vocations and they can share curricula.

<sup>10</sup> Many of the vocational training programs that have been and are being used by technical assistance projects originated in the industrialized countries. They were often developed at times when changes in terms of new technologies, production processes, tools, equipment, materials, as well as in occupational profiles, occurred at far slower rates than in the period of rapid change which characterizes today's world. The recognition of the need for flexibility is not only relevant to B&H, it is a trend that has gradually driven training modernization throughout the EU since the 1970s.

- > For tertiary levels: securing access to existing on-line training used by schools in other countries or converting some courses into on-line programs.
- > Developing assessment and evaluation tools that can be used by ministry officials to speed up the review and approval/declination of new curricula.
- > Assisting in the development of new training concepts and models based on modern curricula that can be replicated around the country.

**Improving the capacity of schools to deliver training:** Lack of progress in improving VET and upgrading curricula stems not only from uncertainty about the ability to actually deliver the training. There are many structural and resource barriers preventing schools from modernizing, but the challenges are not insurmountable and better knowledge sharing and use of technology can help. Greater participation by the private sector is also necessary and can go a long way to overcoming capacity and funding constraints. One needs to look no farther than countries like Germany where educators and policymakers have long held that involvement of the private sector is essential for providing practice-related knowledge and sharing costs.

The core focus of improving the delivery of training needs to focus on three core elements: building institutional capacity to develop and run programs and finding new ways of delivering programs that make education more accessible and uniform. Education needs to shift from an individual-based approach—where the goals center on generalized skill building—to a job-based approach that sacrifices some of this generality to improve the fit of the skills to specific jobs.

> **Institutional Capacity:**

- Helping schools to develop better learning tools and techniques. Establishing a leadership development program for school directors and administrators and creating networks of educators around the country and connecting them to networks in other countries.
- Developing a VET Rating Scheme that provides rankings of various programs according to level of development and market demand; it will drive comparisons and enable schools to benchmark their progress/standing. Creating competitive tension through rankings will provide a mechanism for giving recognition as well as for motivating laggards.
- Grant support to acquire the right equipment for training; working out partnerships with local employers to donate or lend certain equipment, or offer limited access to idle equipment during off hours.
- Developing new, ring-fenced, financing structures/credit programs that enable schools to finance new equipment.
- Developing partnerships among schools within individual vocations.

> **Teacher Capacity:**

- Establishing a Center of Excellence (state or entity-level) for vocational teacher development. This center would be a hub for helping develop vocational teaching skills in new areas.
- Developing of a Visiting Teacher's Program. This program would bring teachers in from outside the country to offer programs in disciplines where domestic capacity is limited. The visits would be limited in time, but would enable some teaching knowledge transfer. The use of a teacher exchange mechanism may also be possible in some areas.
- Establishing of a vocational teacher network, supported by knowledge-sharing events, a web-portal, and publications

- Promoting development of a part-time teacher corps using practitioners from the market. This will not be popular with full-time teachers, but if it is done in limited areas where school expertise is weak, it may be possible if regulations can be modified.
- Strengthening teacher incentive systems: This could include financial-based or recognition-based programs that highlight achievements and contributions to the field; for example, an award program that recognizes achievement in vocational training that supports competitiveness. In that same vein, the government could be encouraged to reward schools for taking on modern VET education. For example, a larger portion of the revenues that are generated from this education could be passed back to the school rather than to the central entity-level or canton-level budget.
- Creating of a national bank of vocational and soft skill learning materials that can be drawn upon by schools and other teaching institutions.
- Developing mechanisms where teachers are made available to enterprises to help with solving problems and looking at new opportunities. In turn, teachers can update their knowledge about production, technology, process, equipment and consult with technical personnel. This type of interaction can be facilitated by the development agencies, enterprises, or schools.
- Developing a program to send teachers to enterprise training programs. This could be interesting for foreign companies that see a benefit in developing teacher capacity in disciplines they need to hire for. The program would work in partnership with enterprises or the foreign investors' council to select the teachers, do orientation training, and cover some of the travel and accommodation costs. Enterprises would offer space in select training programs.

**> Program Platforms:**

- Developing of a special accelerated “second-chance” program that allows adults to quickly complete their secondary education. This would be developed to help the large amount of people who dropped out or did not enrol in secondary school during the war. It would allow the unemployed to catch up in their qualifications for higher income employment and help boost confidence for many.
- Assisting in the development of apprenticeship programs modelled after those used in Germany and Austria.
- Tesanj Vocational school benefitted significantly from partnering with a school in Slovenia, their teachers received training and the Slovenian school donated equipment for their metal and wood processing classes. Development of VET partnerships with other schools in the EU where the outcome of training supports regional value chains. This could be setup as a “sister school” program around certain vocations that strengthen Bosnia’s ability to produce for EU-linked value chains, such as in automobile components, cut-make-trim textiles, and other areas where the vocational training has a beneficial trade impact.

**> Linkages among schools:**

- FIRMA was able to replicate the Tesanj VET model by asking the school principals to present the concept to other school in B&H. Other school principals were more receptive to listening and adapting the model to their school after they heard about the Tesanj experience. Similar road shows could be completed to spread the word about the VET model and to foster closer linkages among the vocational schools.
- Promoting the development of regional educational networks; examples include: Center for Self-directed Learning, Knowledge Exchanges, Information and Advisory Center and Life-Long Learning Center.



## Informal Education – Adult Retraining

**Facilitating the development of new job-driven training programs:** The unemployed and even those who have are about to graduate rarely have the skills demanded in the labor market. Hanging vocational training and establishing VET councils to influence curricula changes should address this problem in the long-run. However, this will not help the current unemployed, especially the long-term unemployed. For them a system of mini (simplified) job-specific training programs need to be designed that meet immediate job needs. Training programs are offered by the private sector and public vocation schools. But, as noted previously, it is sometimes difficult for private institutions to provide training. The second problem is financing – the costs of implementing training both in private training centers and in the vocational schooling system.

The USAID-Sida FIRMA practical adult retraining model that was used in Gorazde, Travnik, Kalesija and other locations was successful because it led to direct job creation. This model relies on companies that are expanding and need new workers, but are having trouble finding staff with the right skills. It brings together the companies, a training center and government to identify the skills needs, develop training curricula, get the curricula approved, and deliver training by the training center and the company. The company gets exactly the skills it needs and the trainees are employed. Funding is provided by the Employment Service and this is made possible because the training leads to direct employment. However, this model may not always be practical for use in some locations- i.e. there may not be a company that can immediately employ the workers and in these cases the employment bureau is not able to support the effort. Other labor forces measures need to be designed and implemented to develop soft skills, ICT skills and other areas than make someone more employable but does not immediately lead to employment.

**Increasing the private provision of vocational and job skills:** State-run VET is currently unable to meet the needs of the enterprise sector. Young people who have completed their education at state and private vocational schools are frequently unable to find employment due to inadequate qualifications, because in many cases the training provided by vocational schools is not adapted to workplace needs. Further the availability of re-training for older workers is limited. Few people want to go back to a secondary school for a formal program that covers too much pedagogical training when they are advanced in their life. Private vocational schools are also constrained by licensing regulations and/or the lack of capacity within the government to review and certify certain programs – it's a vicious cycle. Advocacy and support for strengthening the enabling environment for private vocational education is needed. This could range from improving regulations to streamlining processes for approving curriculums and licensing. There also can be opportunities to working with enterprise clusters or business networks to create inter-company training centers.

## Improving Job Placement and Market Functioning

There are not enough channels to connect job seekers with employers. One dominant recruiting agency focused mostly on skilled and managerial jobs, and a number of other smaller agencies with a split focus on job placement and other unrelated activities, is not enough for the entire country. The infrastructure for recruiting, labor hire, employment counseling needs to be developed. In addition, a culture for independent job searching also needs to be developed. The practice of seeking work by calling on employers and doing independent job searches is not common. Many of the youth rely on newspaper ads, word of mouth, and postings at the local employment office.

The following interventions are designed to catalyze improvements in this area:

- › Support the creation of a package of investment incentives and an investment promotion program to encourage the setup of new private sector recruiting and job advertising services.
- › Advocate for partial outsourcing of employment placement services by the government(s).
- › Improve consumer protection regulation of job placement firms.
- › Develop an on-line state-wide portal to advertise jobs:
- › Assist secondary and tertiary schools to set up career placement and counselling functions.
- › Use social media to communicate and engage with the schools and students about the skills and careers.
- › Facilitate better communication between schools and private sector.

**Tactical Support to Improve Effectiveness and Reach of Employment Services:** Public Employment Services have a crucial role to play in re-integrating the unemployed. They are best suited to address heterogeneous groups of unemployed. They have the locations, funds, community reach, and data to make a difference. As noted earlier the employment service has benefitted from a lot of donor assistance in various locales around the country. There are also individuals in the ES offices that have led reform; for example the agency head in Gorazde and others. Progress has been made, but it is uneven and a lot more remains to be done. The challenges are deep-rooted and go beyond low capacity and resources; they are complicated by the existing public sector labor policy and patronage politics. Without a large, sustained, multi-donor effort, policy reform, and strong political will the quality of services are likely to suffer.

But there are opportunities to help the ES become more effective at job placement in the context of some of the interventions that has already been presented in this paper. Examples of these include:

- > Establishing a labor policy research unit at the state or entity-level: This unit would work with local think tanks and labor specialists to evaluate the effectiveness of government policies and alignment of services to support national/entity-level economic goals. Ideally this unit should be organized at the state-level but it could also be organized within the Ministry for Labor and Education at the entity-level.
- > Improving information collection on the labor market. This could be a large task covering the entire regime of information collection and reporting up to the state level or it could focus on specific areas of information collection. One priority for this would be to enhance the existing Labor Market Survey. The survey could be expanded to discover more about dynamics of the labor market, trends, employer needs, skills gaps, etc. The survey offers a great opportunity to get information from the market, but it is too narrowly focused at present.
- > Developing a general tool/system by which all employment service offices can profile and analyze unemployed registrants. This tool would reduce the need for employment offices to spend resource on developing their own (which some are doing, but in an ad hoc way) and enabling consistency in analysis and some standardization in approach.
- > Creating a platform by which ES and employers can communicate in real time about local opportunities and availability of labor.
- > Developing guidance, with international case examples, for ES offices on how to conduct job placement.
- > Working with state-level officials in identifying and planning broad-based initiatives that can help all ES offices.

- > Helping ES offices to develop marketing and outreach strategies to reach local employers, emphasizing the benefits they can provide, such as screening, support for training, matching skills to jobs, etc.

## Demand – Side Recommendations

Conditions for employers also need to improve. More market-oriented regulations, lower inspection burdens, etc. should be at the top of the list of enabling environment reforms. The capacity of many employers to manage and nurture their workforce is generally weak. The needs are greatest among SMEs. Some of the assistance that could be provided to address demand-side constraints includes the following:

Potential interventions to address demand-side constraints and improve conditions for employers include:

- > Assistance in developing tools for SMEs to better manage their workforce. This could include skill-gap assessment tools, articulating job qualification requirements to schools and training organizations for larger companies. For medium and smaller companies these activities should be completed by development agencies or business associations as they typically would not have the resources to undertake these types of assessments. This information should feed into the local VET organizations.
- > Creation of a program called “Excellent Employer” that would qualify employers on the basis of their conduct, compliance with law, and working conditions for employees. This program would help to differentiate employers and strengthen their competitiveness for attracting labor. It would help reduce the negative perceptions that have formed about private sector employment where good firms are suffering reputational damage as a result of labor practices of poorly managed ones. The program is a new idea that could be run by an NGO, or a private enterprise. Enterprises would pay a modest fee for the evaluation that would hopefully result in a stamp of good result. Introducing standards that are now being demanded by certain EU countries, such as for the apparel sector in Germany. These standards show that companies are implementing procedures to protect workers – specifically workers in the textile industries.
- > Legal templates and guidance to mitigate labor law risk. This would be simplified guidance that would help employers comply with law and offer lessons learned based on the experience of other employers.
- > Working with enterprises or enterprise associations to develop internship and apprenticeship programs. This includes programs with local schools, as already mentioned, and company-initiated programs for people who have already graduated.

## Improving Sentiment and Building a Positive Culture for Employment

The transition from worker-self management, which is perceived quite positively by a large segment of B&H society, to a market-based labor system, and all of its related uncertainty and trade-offs, needs a sentiment boost. Hearts and minds need to change on the matter. Focus has to shift from stagnation and state care-taking to a horizon of opportunity and improved livelihood accessible through individual initiative and work. Broad-based transformation is needed in labor and industrial policy. To achieve these things, the public

has to favor and demand change or populist politics will continue to deprive the country of progress. The public has to be aware of the issues and the economic impact of doing nothing, of labor bargains that are not sustainable, and of supporting a large public sector on the back of an unstable private sector.

The lack of social discourse, social neutrality/acceptance towards unemployment, and poor transmission of a positive working culture (inter-generationally, inter-communally, and otherwise) are all glaring weakness in the current environment. They are major constraints to reform. Without more public discourse and education and without a change in outlook it is hard to see how hearts and minds can change. This section has a few ideas for helping to improve public education, managing expectations and gradually inducing a change in the culture of work and social attitudes about employment.

> **General Public:**

- Assistance in developing national (or entity-level) public awareness campaign on key labor market reforms: This campaign would embody public-private dialogue that reaches the general public. It should also include public service announcements, education, joint activities by various ministries (economy, labor, culture, health, education, etc.) and the like. It would be designed to raise national awareness of the issues, introduce the concept of a national labor market, communicate a vision connecting this market and the EU, re-build social capital, and bring about a change in social values about employment. Respected members of society – e.g. celebrities, sports stars, journalists, authors, and educators – would be engaged to help deliver the messages and become the champions for change. (This indeed seems idealistic at this point, given the current political environment and the fact that it is hard for a government to reinforce good values in one area of economic development while being perceived as falling short in doing the same in other areas. But the program can begin with light-touch messages and progressively strengthen over time as reforms are made. ) There are international examples to consider and borrow from. For example, the communications behind the broad-sweeping adjustment of the labor market in Germany over the last decade Germany (Hartz reforms) and possibly the Netherlands even earlier may offer lessons, as do some of the less effective attempts in Spain and Turkey.
- Helping civil society organizations to become more proactive and engaged in work culture change and building social capital. This would involve helping to establish a coalition of CSOs to promote change, providing information and guidance on the labor market issues so they can form their own agenda of activism, organizing social dialogue on the cultural and social issues of labor reform, etc. Targeted efforts by these organizations are needed to re-establish the negative social stigma associated with being unemployed.
- Working with local governments to develop localized education campaigns.

> **Youth-focused:** Specific changes are needed in the ranks of youth to increase social pressure for finding a job, inculcate a culture of personal responsibility and manage expectations.

- Assistance in developing a national or entity-level campaign to build a positive work culture among youth.
- Assistance in getting youth organizations more involved in labor market reform and public dialogue. This includes getting youth involved in solving labor market challenges and thinking creatively about what can be done.

- Facilitating exchanges between youth organizations and those in other countries with strong work culture.
  - Working with primary and secondary schools to develop programs for parents on youth employment. The aim of this activity would be to help change parental attitudes about working and provide guidance on what they can do at home to help their children strengthen their employability and secure a job.
  - Developing a volunteer program by which senior executives of large companies are made available in to speak to youth groups about employment, building a careers, and current market challenges.
  - Working with the ES to develop public service messages and an information campaign that promote positive attitudes among youth.
  - Work with schools and through social media about careers, so that kids know what their options are. Schools need to discuss with students soft skills, preparing for work.
- > **Women:** Public as well as government awareness of the economic potential of women is weak. A far-reaching public information campaign that is targeted at women could be developed in cooperation with the women's business network and private sector. Business associations themselves need to boost their membership among female entrepreneurs. These campaigns would shed light on how women are helping to drive industry in other countries, how they are managing work-life balances by promoting innovative working arrangements, etc.



## Concluding Remarks

**The issues outlined in this paper indicate a need for policy makers to do more to address the chronic under-development of the labor market resulting from poor policies, weak institutions, and political division.** A lot of assistance was provided by donors and many initiatives are still in process. Various parts of the government(s) have also responsibly taken initiative at times. Most of these efforts have focused on one part of the problem. The exceptional circumstances in B&H may warrant broader effort.

**Certainly, at the highest level, there is a need to better integrate programs and make use of the collective resources and diplomacy of bilateral and multilateral institutions.** These institutions must press for more coordination among the political divisions (the entities, cantons, municipalities, and special jurisdictions, etc.)<sup>11</sup>. B&H has not one labor market, but many of them, including a labor export market. For the foreseeable future it is probably easier to connect these markets through harmonization and cooperation than by political or social alchemy. They have to be organized somehow to support a single national economy. Widespread labor dislocation is a major constraint for economic development.

**Many of the constraints presented in this paper can be overcome if there is strong public-private collaboration and an unwavering commitment from the Government at all levels to build and support a national labor market.** International actors working together, holding the carrot of financial and technical support, may be able facilitate better cooperation by limiting their support to those administrations demonstrating the strongest political will to reform. Creating competitive tension for resources among the sub-sovereign administrations may force the hand of administrations that have been gaming for foreign assistance and not doing enough to integrate their localized labor force into the national mosaic. Such a move could be accompanied by establishment of a development pact, endorsed by the largest aid agencies, that focuses on strengthening the integration of efforts, setting uniform conditions for labor market assistance, and deepening assistance in priority areas. USAID and SIDA together have the convening power to push this kind of agenda forward. At this time, a third generation co-financed project could be accompanied by additional actions that would steer the other international actors in the joint direction.

**Most of the businesses and many of the public sector stakeholders USAID-Sida FIRMA has worked with want to move forward.** They see and experience the constraints. They understand the long-term implications of doing nothing; conditions such as those in B&H either get better or worse, they rarely stay the same. State and donor support can help, but the ultimate goal of this assistance should be to induce an autonomous and sustainable reaction of market forces that will yield fundamental changes in how the labor market (or markets) functions to improve livelihoods and national competitiveness in the EU and regional-market. Only in the context of market-based solutions will B&H be able to create jobs and qualified labor supply on a scale needed to reverse current trends.

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<sup>11</sup> Weak coordination and integration is a theme that was raised time and again by various observers. This includes coordination even within donors. One project director remarked he ran one of three labor market markets for the same donor and all of the projects face challenges in coordinating for various reasons. He was remarking in the context of how difficult it must be to achieve inter-donor cooperation when in fact projects for the same donor are working in silos.

## Appendices

### **Appendix A: Institutional Sources of Information**

1. Adult Education Accredited Center
2. Youth Employment Project
3. EU
4. AISEC (Workforce Development)
5. Development agency ALDI
6. Development agency NERDA
7. ILO Bosnia
8. Federal Employment Agency, FBIH
9. Posao.ba
10. MarketMakers Project (SDC-funded)
11. Employer focus group Dobož
12. Employment Department, Federal Ministry of Labor and Social Politics
13. International Finance Corporation
14. Mixed Vocational School, Tesanj
15. Economics Institute
16. World Bank
17. Private labor law firm
18. UNITIC
19. Company Premier
20. Company Jadrina
21. Company RPC
22. Company Energotehnika
23. USAID-Sida FIRMA Project

## Appendix B: Resources and Reports Used During the Assessment

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